STANLEY BLACK & DECKER, INC.
Form 10-Q
October 29, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 29, 2012.

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from [ ] to [ ]

Commission File Number 001-05224

STANLEY BLACK & DECKER, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CONNECTICUT	06-0548860
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
	\\nbc-prd-hypfs-01\K
1000 STANLEY DRIVE NEW BRITAIN, CONNECTICUT	06053
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(860) 225-5111
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	þ		Accelerated filer	¨
Non-accelerated filer	¨	(Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

168,785,569 shares of the registrant's common stock were outstanding as of October 25, 2012

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PART I — FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

STANLEY BLACK & DECKER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
THREE AND NINE MONTHS ENDED SEPTEMBER 29, 2012 AND OCTOBER 1, 2011
(Unaudited, Millions of Dollars, Except Per Share Amounts)

	Third Quarter		Year-to-Date	
	2012	2011	2012	2011
Net Sales	$2,786.7	$2,619.7	$8,253.8	$7,584.5
Costs and Expenses				
Cost of sales	$1,777.2	$1,651.4	$5,235.9	$4,775.9
Selling, general and administrative	651.1	635.9	1,994.4	1,859.0
Provision for doubtful accounts	4.6	3.8	10.3	12.6
Other-net	77.0	89.6	248.7	201.7
Restructuring charges and asset impairments	53.4	14.9	114.1	49.2
Loss on debt extinguishment	45.5	—	45.5	—
Interest expense	36.7	34.8	105.1	103.5
Interest income	(2.6)	(8.0)	(7.5)	(20.3)
	$2,642.9	$2,422.4	$7,746.5	$6,981.6
Earnings from continuing operations before income taxes	143.8	197.3	507.3	602.9
Income taxes on continuing operations	28.8	35.1	116.7	86.0
Earnings from continuing operations	$115.0	$162.2	$390.6	$516.9
Less: Net (loss) earnings attributable to non-controlling interests	(0.2)	0.7	(1.2)	0.4
Net earnings from continuing operations attributable to common shareowners	115.2	161.5	391.8	516.5
Loss from discontinued operations before income taxes	—	(8.7)	—	(7.6)
Income tax benefit on discontinued operations	—	(1.8)	—	(1.7)
Net loss from discontinued operations	$—	$(6.9)	$—	$(5.9)
Net Earnings Attributable to Common Shareowners	$115.2	$154.6	$391.8	$510.6
Total Comprehensive Income (Loss) Attributable to Common Shareowners	$392.8	$(105.4)	$471.0	$445.3
Basic earnings (loss) per share of common stock:				
Continuing operations	$0.71	$0.98	$2.39	$3.10
Discontinued operations	—	(0.04)	—	(0.04)
Total basic earnings per share of common stock	$0.71	$0.94	$2.39	$3.06
Diluted earnings (loss) per share of common stock:				
Continuing operations	$0.69	$0.96	$2.34	$3.02
Discontinued operations	—	(0.04)	—	(0.04)
Total diluted earnings per share of common stock	$0.69	$0.92	$2.34	$2.99
Dividends per shares of common stock	$0.49	$0.41	$1.31	$1.23
Weighted Average Shares Outstanding (in thousands):				
Basic	162,990	164,962	163,835	166,524
Diluted	166,043	168,896	167,568	170,976

See notes to condensed consolidated financial statements.

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STANLEY BLACK & DECKER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 29, 2012 AND DECEMBER 31, 2011
(Millions of Dollars, Except Per Share Amounts)

	(Unaudited) September 29, 2012	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$769.5	$906.9
Accounts and notes receivable, net	1,829.9	1,553.2
Inventories, net	1,702.0	1,438.6
Other current assets	452.5	424.0
Total Current Assets	4,753.9	4,322.7
Property, Plant and Equipment, net	1,385.5	1,250.9
Goodwill	7,528.7	6,920.1
Intangibles, net	3,165.8	3,117.0
Other Assets	280.3	338.3
Total Assets	$17,114.2	$15,949.0
Liabilities and Shareowners' Equity		
Current Liabilities		
Short-term borrowings	$1,336.7	$0.2
Current maturities of long-term debt	208.6	526.4
Accounts payable	1,489.2	1,312.6
Accrued expenses	1,635.8	1,429.3
Total Current Liabilities	4,670.3	3,268.5
Long-Term Debt	2,728.9	2,925.8
Deferred Taxes	1,002.7	905.0
Post-retirement Benefits	701.0	724.1
Other Liabilities	747.4	1,058.8
Commitments and Contingencies (Note Q)	—	—
Shareowners' Equity		
Stanley Black & Decker, Inc. Shareowners' Equity		
Preferred stock, without par value:		
Authorized and unissued 10,000,000 shares		
Common stock, par value $2.50 per share:		
Authorized 300,000,000 shares in 2012 and 2011		
Issued 176,906,265 shares in 2012 and 176,091,572 shares in 2011	442.3	440.7
Retained earnings	2,886.9	2,707.3
Additional paid in capital	4,657.6	4,581.3
Accumulated other comprehensive loss	(270.0)	(349.2)
ESOP	(64.2)	(68.5)
	7,652.6	7,311.6
Less: cost of common stock in treasury	(448.2)	(308.0)
Stanley Black & Decker, Inc. Shareowners' Equity	7,204.4	7,003.6
Non-controlling interests	59.5	63.2
Total Shareowners' Equity	7,263.9	7,066.8
Total Liabilities and Shareowners' Equity	$17,114.2	$15,949.0

See notes to condensed consolidated financial statements.

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STANLEY BLACK & DECKER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE AND NINE MONTHS ENDED SEPTEMBER 29, 2012 AND OCTOBER 1, 2011
(Unaudited, Millions of Dollars)

	Third Quarter		Year-to-Date	
	2012	2011	2012	2011
OPERATING ACTIVITIES				
Net earnings attributable to common shareowners	$115.2	$154.6	$391.8	$510.6
Less: net loss from discontinued operations	—	(6.9)	—	(5.9)
Add: net (loss) earnings attributable to non-controlling interests	(0.2)	0.7	(1.2)	0.4
Net earnings from continuing operations	115.0	162.2	390.6	516.9
Adjustments to reconcile net earnings to cash provided by operating activities:				
Depreciation and amortization of property, plant and equipment	53.0	55.2	175.8	168.2
Amortization of intangibles	52.8	45.1	154.8	129.8
Loss on debt extinguishment	45.5	—	45.5	—
Settlement of income tax contingencies	(6.6)	—	(6.6)	(69.2)
Asset Impairments	10.8	—	10.8	—
Changes in working capital	(174.8)	(13.8)	(286.0)	(72.0)
Changes in other assets and liabilities	55.5	(92.8)	(66.8)	(218.1)
Cash provided by operating activities	151.2	155.9	418.1	455.6
INVESTING ACTIVITIES				
Capital expenditures	(89.0)	(58.4)	(259.5)	(196.4)
Business acquisitions, net of cash acquired	(106.4)	(50.2)	(683.8)	(214.8)
Purchase of Niscayah	—	(962.9)	(11.3)	(962.9)
Proceeds from sale of assets	2.3	2.5	8.6	28.5
Termination of interest rate swaps	—	(3.1)	—	(3.1)
Proceeds (payments) on net investment hedge settlements	4.8	(5.3)	11.8	(34.5)
Short-term investments	—	24.7	—	(17.8)
Cash used in investing activities	(188.3)	(1,052.7)	(934.2)	(1,401.0)
FINANCING ACTIVITIES				
Payments on long-term debt	(900.9)	(1.8)	(1,222.0)	(403.2)
Premium paid on debt extinguishment	(91.0)	—	(91.0)	—
Proceeds from long-term borrowings	729.4	0.9	729.4	21.4
Net premium paid for equity option	—	—	—	(19.6)
Stock purchase contract fees	(0.8)	(0.8)	(2.4)	(2.4)
Net short-term borrowings	527.4	(68.8)	1,316.3	556.0
Cash dividends on common stock	(82.5)	(69.1)	(221.3)	(206.6)
Termination of interest rate swaps	—	—	35.8	—
Termination of forward starting interest rate swap	—	—	(56.4)	—
Proceeds from the issuance of common stock	27.4	17.0	102.9	102.4
Purchase of common stock for treasury	—	(0.1)	(217.8)	(6.2)
Cash provided by (used in) financing activities	209.0	(122.7)	373.5	41.8
Effect of exchange rate changes on cash and cash equivalents	19.8	(44.7)	5.2	11.0
Change in cash and cash equivalents	191.7	(1,064.2)	(137.4)	(892.6)
Cash and cash equivalents, beginning of period	577.8	1,914.4	906.9	1,742.8
CASH AND CASH EQUIVALENTS, END OF PERIOD	$769.5	$850.2	$769.5	$850.2

See notes to condensed consolidated financial statements.

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STANLEY BLACK & DECKER, INC. AND SUBSIDIARIES
NOTES TO (UNAUDITED) CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 29, 2012

A. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (hereinafter referred to as “generally accepted accounting principles”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations for the interim periods have been included and are of a normal, recurring nature. Operating results for the three and nine months ended September 29, 2012 are not necessarily indicative of the results that may be expected for a full fiscal year. For further information, refer to the consolidated financial statements and footnotes included in Stanley Black & Decker, Inc.’s (the “Company”) Form 10-K for the year ended December 31, 2011.
The Company sold three small businesses during 2011 for total cash proceeds of $27.1 million. The largest of these businesses was part of the Company’s Industrial segment, with the other two businesses being part of the Company’s Security segment. The operating results of these three businesses have been reported as discontinued operations in the Consolidated Statements of Operations and Comprehensive Income for 2011.
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from these estimates.

B. New Accounting Standards

In July 2012, the Financial Accounting Standards Board ("FASB") issued ASU 2012-02, "Intangibles - Goodwill and Other (Topic 350) - Testing Indefinite-Lived Intangibles Assets for Impairment (revised standard). The revised standard is intended to reduce the costs and complexity of the annual impairment testing by providing entities an option to perform a "qualitative" assessment to determine whither further impairment testing is necessary. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company will consider this new guidance as it conducts its annual impairment testing in 2013 as the Company has chosen not to early adopt this ASU for its 2012 testing.

In the first quarter of 2012, the Company adopted ASU 2011-05, "Comprehensive Income (Topic 220)," which revised the manner in which the Company presents comprehensive income in the financial statements. The new guidance requires entities to report components of comprehensive income in either (1) continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU did not change the items that must be reported in other comprehensive income.

In December 2011, the FASB issued guidance enhancing disclosure requirements on the nature of an entity’s right to offset and related arrangements associated with its financial and derivative instruments. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards followed, and the related net exposure. The new disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013 and interim periods therein. Other than requiring additional disclosures, the Company does not expect a material impact on its consolidated financial statements upon adoption.

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C. Earnings Per Share

The following table reconciles net earnings attributable to common shareowners and the weighted-average shares outstanding used to calculate basic and diluted earnings per share for the three and nine months ended September 29, 2012 and October 1, 2011:

	Third Quarter		Year-to-Date	
	2012	2011	2012	2011
Numerator (in millions):				
Net earnings from continuing operations attributable to common shareowners	$115.2	$161.5	$391.8	$516.5
Net loss from discontinued operations	—	(6.9)	—	(5.9)
Net earnings attributable to common shareowners	$115.2	$154.6	$391.8	$510.6
Less earnings attributable to participating restricted stock units (“RSU’s”) (a)	—	0.3	—	1.1
Net Earnings — basic	$115.2	$154.3	$391.8	$509.5
Net Earnings — dilutive	$115.2	$154.6	$391.8	$510.6

(a) Due to the delivery of a significant portion of the outstanding participating RSU’s in 2011, the earnings attributable to any remaining participating RSU’s in 2012 is deemed de minimus.

	Third Quarter		Year-to-Date	
	2012	2011	2012	2011
Denominator (in thousands):				
Basic earnings per share — weighted-average shares (a)	162,990	164,962	163,835	166,524
Dilutive effect of stock options, awards and convertible preferred units and notes	3,053	3,934	3,733	4,452
Diluted earnings per share — weighted-average shares	166,043	168,896	167,568	170,976
Earnings per share of common stock:				
Basic earnings (loss) per share of common stock:				
Continuing operations	$0.71	$0.98	$2.39	$3.10
Discontinued operations	—	(0.04)	—	(0.04)
Total basic earnings per share of common stock	$0.71	$0.94	$2.39	$3.06
Diluted earnings (loss) per share of common stock:				
Continuing operations	$0.69	$0.96	$2.34	$3.02
Discontinued operations	—	(0.04)	—	(0.04)
Total dilutive earnings per share of common stock	$0.69	$0.92	$2.34	$2.99

(a) The Company repurchased three million shares of common stock during the second quarter of 2012 for $200 million.

The following weighted-average stock options and warrants were outstanding during the three and nine months ended September 29, 2012 and October 1, 2011, respectively, but were not included in the computation of diluted shares outstanding because the effect would be anti-dilutive (in thousands):

	Third Quarter		Year-to-Date	
	2012	2011	2012	2011
Number of stock options	2,585	3,303	2,070	2,135
Number of stock warrants	3,704	4,939	4,445	4,939

During August and September 2012, 4,938,624 stock warrants expired which were associated with the $320.0 million convertible notes that matured in May 2012. No shares were issued upon their expiration as the warrants were out of the money.

D. Financing Receivables

Long-term trade financing receivables of $142.4 million and $131.2 million at September 29, 2012 and December 31, 2011, respectively, are reported within other assets in the Condensed Consolidated Balance Sheets. Financing receivables and long-term financing receivables are predominately related to certain security equipment leases with commercial businesses. Generally, the Company retains legal title to any equipment leases and bears the right to repossess such equipment in an event of default. All financing receivables are interest bearing and the Company has not classified any financing receivables as held-for-sale. Interest income earned from financing receivables that are not delinquent is recorded on the effective interest method. The Company considers any financing receivable that has not been collected within 90 days of original billing date as past-due or delinquent. Additionally, the Company considers the credit quality of all past-due or delinquent financing receivables as nonperforming.

The Company has an accounts receivable sale program that expires on December 11, 2014. According to the terms of that program the Company is required to sell certain of its trade accounts receivables at fair value to a wholly owned, consolidated, bankruptcy-remote special purpose subsidiary ("BRS"). The BRS, in turn, must sell such receivables to a third-party financial institution ("Purchaser") for cash and a deferred purchase price receivable. The Purchaser's maximum cash investment in the receivables at any time is $100.0 million. The purpose of the program is to provide liquidity to the Company. The Company accounts for these transfers as sales under ASC 860 "Transfers and Servicing". Receivables are derecognized from the Company's Consolidated Balance Sheets when the BRS sells those receivables to the Purchaser. The Company has no retained interests in the transferred receivables, other than collection and administrative responsibilities and its right to the deferred purchase price receivable. At September 29, 2012, the Company did not record a servicing asset or liability related to its retained responsibility, based on its assessment of the servicing fee, market values for similar transactions and its cost of servicing the receivables sold.

At September 29, 2012 and December 31, 2011, $68.0 million and $92.1 million, respectively, of net receivables were derecognized. Gross receivables sold amounted to $277.9 million ($245.2 million, net) and $844.1 million ($749.5 million, net) for the three and nine months ended September 29, 2012, respectively. These sales resulted in a pre-tax loss of $0.8 million and $2.2 million for the three and nine months ended September 29, 2012, respectively. Proceeds from transfers of receivables to the Purchaser totaled $241.9 million and $704.8 million for the three and nine months ended September 29, 2012, respectively. Collections of previously sold receivables, including deferred purchase price receivables, and all fees, which are settled one month in arrears, resulted in payments to the Purchaser of $251.3 million and $729.0 million for the three and nine months ended September 29, 2012, respectively. Servicing fees amounted to $0.1 million and $0.4 million for the three and nine months ended September 29, 2012, respectively.

Gross receivables sold amounted to $494.2 million ($423.7 million, net) and $759.3 million ($665.4 million, net) for the three and nine months ended October 1, 2011, respectively. These sales resulted in a pre-tax loss of $0.9 million and $1.5 million for the three and nine months ended October 1, 2011, respectively. Proceeds from transfers of receivables to the Purchaser totaled $323.1 million and $573.9 million for the three and nine months ended October 1, 2011, respectively. Collections of previously sold receivables, including deferred purchase price receivables, and all fees, which are settled one month in arrears, resulted in payments to the Purchaser of $271.2 million and $516.0 million for the three and nine months ended October 1, 2011, respectively. Servicing fees amounted to less than $0.1 million for both the three and nine months ended October 1, 2011.

The Company's risk of loss following the sale of the receivables is limited to the deferred purchase price receivable, which was $92.5 million at September 29, 2012 and $17.6 million at December 31, 2011. The deferred purchase price receivable will be repaid in cash as receivables are collected, generally within 30 days, and as such the carrying value of the receivable recorded approximates fair value. Delinquencies and credit losses on receivables sold were $0.4 million and $0.6 million for the three and nine months ended September 29, 2012, and less than $0.1 million and $0.2 million for the three and nine months ended October 1, 2011, respectively. Cash inflows related to the deferred purchase price receivable totaled $70.0 million and $206.6 million for the three and nine months ended September 29, 2012, respectively, and $76.0 million and $141.3 million for the three and nine months ended October 1, 2011, respectively. All cash flows under the program are reported as a component of changes in accounts receivable within operating activities in the condensed consolidated statements of cash flows since all the cash from the Purchaser is either: 1) received upon the initial sale of the receivable; or 2) from the ultimate collection of the underlying receivables and the underlying receivables are not subject to significant risks, other than credit risk, given their short-term nature.

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E. Inventories

The components of inventories, net at September 29, 2012 and December 31, 2011 are as follows (in millions):

	2012	2011
Finished products	$1,216.3	$1,043.1
Work in process	176.1	147.7
Raw materials	309.6	247.8
Total	$1,702.0	$1,438.6

F. Acquisitions

PENDING ACQUISITIONS

On July 23, 2012, the Company announced that it has entered into a definitive agreement to acquire Infastech, a global manufacturer and distributor of specialty engineered fastening technology based in Hong Kong for approximately $850 million. Infastech will be consolidated into the Company's Industrial segment. The transaction is subject to customary closing conditions and is expected to close, at the earliest, in the fourth quarter of 2012.

2012 ACQUISITIONS

During the first three quarters of 2012, the Company completed six acquisitions for a total purchase price of $683.8 million, net of cash acquired. The largest of these acquisitions were AeroScout Inc. (“AeroScout”), which was purchased for $238.8 million, and Powers Fasteners, Inc (“Powers”), which was purchased for $220.5 million. AeroScout develops, manufactures, and sells real time locating systems ("RTLS") primarily to healthcare and certain industrial customers. Powers distributes fastening products such as mechanical anchors, adhesive anchoring systems, and powered forced-entry systems, mainly for commercial construction end customers. AeroScout was purchased in the second quarter and has been integrated within the Security and Industrial segments. Powers was also purchased in the second quarter and is part of the CDIY segment. The combined assets acquired for these acquisitions, including $210 million of intangible assets and $7 million of cash acquired, are approximately $333 million, and the combined liabilities are approximately $115 million. The related goodwill associated with these two acquisitions is approximately $249 million. The total purchase price for the acquisitions was allocated to the assets acquired and liabilities assumed based on their estimated fair values. The purchase accounting for these recent acquisitions is preliminary, principally with respect to finalization of intangible asset valuation and certain other minor items.

Four smaller acquisitions were completed during 2012 for a total purchase price of $224.5 million. The largest of these acquisitions were Lista North America (“Lista”), which was purchased for $89.7 million, and Tong Lung Metal Industry Co. ("Tong Lung"), which the Company purchased a 89% controlling share for $102.8 million and assumed $20.0 million of short term debt. Lista's storage and workbench solutions complement the Industrial & Automotive Repair division's tool, storage, RFID, and specialty supply product and service offerings. Tong Lung manufactures and sells commercial and residential locksets. Lista was purchased in the first quarter and is part of the Industrial segment. Tong Lung was purchased in the third quarter and is part of the Security segment. The purchase accounting for these recent acquisitions is substantially complete with the exception of Tong Lung which was acquired in the third quarter of 2012.

2011 ACQUISITIONS

NISCAYAH

On September 9, 2011 the Company established a controlling ownership interest of 95% in Niscayah. This was accomplished as part of an existing tender offer to purchase all Niscayah outstanding shares at a price of 18 SEK per share, whereby the Company increased its ownership interest from 5.8% of the outstanding shares of Niscayah at July 2, 2011 to 95% of the outstanding shares at September 9, 2011. Over the remainder of 2011, the Company purchased additional outstanding shares of Niscayah, bringing the Company’s total ownership interest in Niscayah to

99% at December 31, 2011. During the second quarter of 2012, the Company purchased the remaining outstanding shares of Niscayah for $11.3 million, or 18 SEK per share. The total purchase price paid for Niscayah was $995.8 million.

The Niscayah acquisition has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The purchase price allocation for Niscayah was completed during the third quarter of 2012 within the measurement period. The measurement

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period adjustments recorded in the third quarter of 2012 did not have a significant impact on the Company's consolidated statements of operations, balance sheet, or condensed statements of cash flows. The following table summarizes the estimated fair values of major assets acquired and liabilities assumed:

(Millions of Dollars)	
Cash and cash equivalents	$21.1
Accounts and notes receivable, net	178.0
Inventories, net	55.1
Prepaid expenses and other current assets	45.3
Property, plant and equipment	32.3
Trade names	6.0
Customer relationships	350.0
Other assets	43.1
Short-term borrowings	(202.9)
Accounts payable	(55.8)
Deferred taxes	(143.5)
Other liabilities	(253.9)
Total identifiable net assets	74.8
Goodwill	921.0
Total consideration transferred	$995.8

Niscayah is one of the largest access control and surveillance solutions providers in Europe. Niscayah's integrated security solutions include video surveillance, access control, intrusion alarms and fire alarm systems, and its offerings include design and installation services, maintenance and repair, and monitoring systems. The acquisition expands and complements the Company's existing security product offerings and further diversifies the Company's operations and international presence.

The weighted average useful life assigned to the trade names was 4 years and to customer relationships was 16 years. Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the expected cost synergies of the combined business, assembled workforce, and the going concern nature of Niscayah.

OTHER 2011 ACQUISITIONS

During 2011, the Company completed nine other acquisitions for a total purchase price of $216.2 million, net of cash acquired. The purchase price allocations for these acquisitions has been completed. There were no significant changes to the purchase price allocations made during the first nine months of 2012.

ACTUAL AND PRO-FORMA IMPACT FROM ACQUISITIONS

Actual Impact from Acquisitions

The following table presents information for AeroScout, Powers, Lista, Tong Lung, and other 2012 acquisitions that are included in the Company's Consolidated Statements of Operations and Comprehensive Income:

(Millions of Dollars)	Third Quarter 2012	Year-to-Date 2012
Net Sales	$73.5	$128.1
Net Loss	(4.4)	(2.5)

Results include charges relating to inventory step-up, fair value adjustments to deferred revenue, and restructuring charges.

Pro-forma Impact from Acquisitions

The following table presents supplemental pro-forma information as if the Niscayah, AeroScout, Powers, Tong Lung and other 2012 and 2011 acquisitions had occurred on January 2, 2011. This pro-forma information includes acquisition-related charges

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for the period. The pro-forma consolidated results are not necessarily indicative of what the Company's consolidated net earnings would have been had the Company completed these acquisitions on January 2, 2011.

	Third Quarter		Year-to-Date	
(Millions of Dollars, except per share amounts)	2012	2011	2012	2011
Net sales	$2,795.7	$2,884.6	$8,390.6	$8,524.9
Net earnings attributable to common shareowners	115.7	160.6	390.0	516.7
Diluted earnings per share-continuing operations	0.70	0.95	2.33	3.02

The 2012 pro-forma results were calculated by combining the results of Stanley Black & Decker with AeroScout's, Powers', and Tong Lung's stand-alone results for their respective pre-acquisition periods. The following adjustments were made to account for certain costs which would have been incurred during this pre-acquisition period:

- Elimination of the historical pre-acquisition intangible asset amortization expense and the addition of intangible asset amortization expense related to intangibles valued as part of the purchase price allocation that would have been incurred from January 1, 2012 to the acquisition dates.
- The modifications above were adjusted for the applicable tax impact.

The 2011 pro-forma results were calculated by combining the results of Stanley Black & Decker with AeroScout's, Powers', Lista's, and Tong Lung's stand-alone results from January 2, 2011 through October 1, 2011. The pre-acquisition results of the other 2011 acquisitions were also combined for their respective pre-acquisition periods. The following adjustments were made to account for certain costs which would have been incurred during this pre-acquisition period:

- Elimination of the historical pre-acquisition intangible asset amortization expense and the addition of intangible asset amortization expense related to intangibles valued as part of the purchase price allocation that would have been incurred from January 2, 2011 to October 1, 2011.
- Additional expense for the inventory step-up which would have been amortized as the corresponding inventory was sold.
- Reduced revenue for fair value adjustments made to deferred revenue for AeroScout.
- The modifications above were adjusted for the applicable tax impact.

G. Goodwill

Changes in the carrying amount of goodwill by segment are as follows (in millions):

(Millions of Dollars)	CDIY	Industrial	Security	Total
Balance December 31, 2011	$3,004.2	$1,291.4	$2,624.5	$6,920.1
Addition from acquisitions	90.2	99.9	317.3	507.4
Foreign currency translation	45.4	0.6	55.2	101.2
Balance September 29, 2012	$3,139.8	$1,391.9	$2,997.0	$7,528.7

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H. Long-Term Debt and Financing Arrangements

Long-term debt and financing arrangements at September 29, 2012 and December 31, 2011 follow:

	Interest Rate	2012	2011
Notes payable due 2012	4.90%	200.4	204.2
Convertible notes payable due in 2012	3 month LIBOR less 3.50%	—	316.1
Notes payable due 2013	6.15%	—	259.2
Notes payable due 2014	4.75%	—	312.7
Notes payable due 2014	8.95%	—	388.7
Notes payable due 2016	5.75%	328.6	330.5
Notes payable due in 2018 (junior subordinated)	4.25%	632.5	632.5
Notes payable due 2021	3.40%	419.0	402.9
Notes payable due 2028	7.05%	171.8	167.5
Notes payable due 2040	5.20%	399.7	399.7
Notes payable due 2052	5.75%	750.0	—
Other, payable in varying amounts through 2021	0.00% – 7.14%	35.5	38.2
Total long-term debt, including current maturities		$2,937.5	$3,452.2
Less: Current maturities of long-term debt		(208.6)	(526.4)
Long-term debt		$2,728.9	$2,925.8

In January 2012, the Company terminated its fixed-to-floating interest rate swaps on its $200.0 million notes payable due in 2012. The Company previously had fixed-to-floating rate swaps on this note that was terminated in December 2008. The $0.4 million adjustment to the carrying value of the $200.0 million notes payable at September 29, 2012 pertains to the unamortized gain on both terminated swaps.

In January 2012, the Company terminated its fixed-to-floating interest rate swap on its $300.0 million notes payable due in 2016. At September 29, 2012, the carrying value of the $300.0 million note payable includes $11.6 million pertaining to the unamortized gain on the terminated swap as well as $17.0 million associated with fair value adjustments made in purchase accounting.

In January 2012, the Company entered into an additional $200.0 million fixed-to-floating interest rate swap on its $400.0 million notes payable due in 2021. The Company had previously entered into a $200.0 million fixed-to-floating interest rate swap on these notes. At September 29, 2012, the carrying value of the $400.0 million notes payable due in 2021 includes $19.4 million pertaining to the fair value adjustment on the swaps partially offset by $0.4 million unamortized discount on the notes.

In January 2012, the Company entered into a fixed-to-floating interest rate swap on its $150.0 million notes payable due in 2028. At September 29, 2012, the carrying value of the $150.0 million notes payable due in 2028 includes $4.8 million pertaining to the fair value adjustment of the swaps as well as $17.0 million associated with fair value adjustments made in purchase accounting.

Unamortized gains and fair value adjustments associated with interest rate swaps and the impact of terminated swaps are more fully discussed in Note I, Derivative Financial Instruments.

In May 2012, the Company repaid the $320.0 million principal of its Convertible Notes at maturity, in cash. Additionally, the Company settled the conversion option value by delivering 640,018 common shares. The conversion rate was 15.6666 per $1,000 note (equivalent to a conversion price set at $63.83 per common share), and the applicable market value of the Company's stock at settlement was $73.24. The Company's Bond Hedge also matured May 17, 2012 resulting in the receipt of 640,772 common shares from the counterparties. The aggregate effect of these financial instruments was a 754 decrease in the Company’s common shares. During August and September 2012, 4,938,624 stock warrants associated with the Convertible Notes expired. No shares were issued upon their expiration as the warrants were out of the money. Refer to Note H, Long-Term Debt and Financing Arrangements, of the Company’s Form 10-K for the year ended December 31, 2011 for further discussion.

In July 2012, the Company issued $750.0 million of junior subordinated debentures, maturing on July 25, 2052 (“2052 Subordinated Debentures”) with fixed interest payable quarterly, in arrears, at a rate of 5.75% per annum. The 2052

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Subordinated Debentures are unsecured and rank subordinate and junior in right of payment to all of the Company's existing and future senior debt. The 2052 Subordinated Debentures are not guaranteed by any of the Company's subsidiaries and are therefore, structurally subordinated to all debt and other liabilities of the Company's subsidiaries. The Company received net proceeds of $729.4 million and paid $20.6 million of underwriting fees associated with the transaction. The Company used the net proceeds from the offering for general corporate purposes, including repayment of debt and refinancing of near term debt maturities. The Company may, so long as there is no event of default with respect to the debentures, defer interest payments on the debentures, from time to time, for one or more Optional Deferral Periods (as defined in the indenture governing the 2052 Subordinated Debentures) of up to five consecutive years per period. Deferral of interest payments cannot extend beyond the maturity date of the debentures. Additionally, the 2052 Subordinated Debentures include an optional redemption whereby the Company may elect to redeem the debentures, in whole or in part, at the redemption price plus accrued and unpaid interest if redeemed before July 25, 2017, or at 100% of their principal amount plus accrued and unpaid interest if redeemed after July 25, 2017.

In July and August 2012, the Company repurchased $250.0 million of The Stanley Works 6.15% senior notes due 2013, $350.0 million of The Black & Decker Corporation's 8.95% senior notes due 2014 and $300.0 million of The Black & Decker Corporation's 4.75% senior notes due 2014 by initiating an open market tender offer to purchase for cash any and all of the notes, followed by exercising its right under the optional redemption provision of each note to repurchase any remaining notes not repurchased in the tender offer. The Company paid a premium of $91 million to extinguish the notes, which was offset by gains of $35 million from fair value adjustments made in purchase accounting and $11 million from terminated derivatives, resulting in a net pre-tax loss of $45.5 million.

At September 29, 2012, the Company had $1,308.4 million of borrowings outstanding against the Company’s $2.0 billion commercial paper program. At December 31, 2011, the Company had no commercial paper borrowings outstanding.

In July 2012, the Company terminated its $750 million 364 day credit facility with the concurrent execution of a new $1.0 billion 364 day committed credit facility ("facility"). The new facility contains a one year term-out provision and borrowings under the Credit Agreement may include U.S. Dollars up to the $1.0 billion commitment or in Euro or Pounds Sterling subject to a foreign currency sublimit of $400.0 million and bear interest at a floating rate dependent upon the denomination of the borrowing. Repayments must be made by July 12, 2013, unless the one year term-out election is made, or upon an earlier termination date of the Credit Agreement, at the election of the Company. As of September 29, 2012, the Company has not drawn on the commitments provided by the facility.

I. Derivative Financial Instruments

The Company is exposed to market risk from changes in foreign currency exchange rates, interest rates, stock prices and commodity prices. As part of the Company’s risk management program, a variety of financial instruments such as interest rate swaps, currency swaps, purchased currency options and foreign exchange contracts, are used to mitigate interest rate exposure and foreign currency exposure.

Financial instruments are not utilized for speculative purposes. If the Company elects to do so and if the instrument meets the criteria specified in Accounting Standards Codification (“ASC”) 815, management designates its derivative instruments as cash flow hedges, fair value hedges or net investment hedges. Generally, commodity price exposures are not hedged with derivative financial instruments and instead are actively managed through customer pricing initiatives, procurement-driven cost reduction initiatives and other productivity improvement projects.

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A summary of the fair value of the Company's derivatives recorded in the Consolidated Balance Sheets at September 29, 2012 and December 31, 2011 follows (in millions):

	Balance Sheet Classification	2012	2011	Balance Sheet Classification	2012	2011
Derivatives designated as hedging instruments:						
Interest Rate Contracts Cash Flow	Other current assets	$—	$—	Accrued expenses	$44.5	$86.9
Interest Rate Contracts Fair Value	Other current assets	11.7	21.7	Accrued expenses	1.0	5.2
	LT other assets	19.6	15.2	LT other liabilities	—	—
Foreign Exchange Contracts Cash Flow	Other current assets	3.5	5.3	Accrued expenses	6.0	1.4
	LT other assets	0.5	—	LT other liabilities	0.6	0.8
Net Investment Hedge	Other current assets	—	27.7	Accrued expenses	36.8	—
		$35.3	$69.9		$88.9	$94.3
Derivatives not designated as hedging instruments:						
Foreign Exchange Contracts	Other current assets	$87.2	$48.1	Accrued expenses	$52.4	$63.4
	LT other assets	—	24.5	LT other liabilities	11.7	24.0
		$87.2	$72.6		$64.1	$87.4

The counterparties to all of the above mentioned financial instruments are major international financial institutions. The Company is exposed to credit risk for net exchanges under these agreements, but not for the notional amounts. The credit risk is limited to the asset amounts noted above. The Company limits its exposure and concentration of risk by contracting with diverse financial institutions and does not anticipate non-performance by any of its counterparties. Further, as more fully discussed in Note L, Fair Value Measurements, the Company considers non-performance risk of its counterparties at each reporting period and adjusts the carrying value of these assets accordingly. The risk of default is considered remote.

During the first nine months of 2012 and 2011, respectively, significant cash flows related to derivatives including those that are separately discussed in Cash Flow Hedges, Fair Value Hedges and Net Investment Hedges below resulted in net cash paid of $29.1 million and cash paid of $93.0 million, respectively.

CASH FLOW HEDGES

There was a $93.3 million and $75.9 million after-tax loss as of September 29, 2012 and December 31, 2011, respectively, reported for cash flow hedge effectiveness in accumulated other comprehensive loss. An after-tax loss of $13.4 million is expected to be reclassified to earnings as the hedged transactions occur or as amounts are amortized within the next twelve months. The ultimate amount recognized will vary based on fluctuations of the hedged currencies and interest rates through the maturity dates.

The tables below detail pre-tax amounts reclassified from accumulated other comprehensive income (loss) into earnings for active derivative financial instruments during the periods in which the underlying hedged transactions affected earnings for the nine months ended September 29, 2012 and October 1, 2011 (in millions):

Year-to-date 2012 (In millions)	Gain (Loss) Recorded in OCI	Classification of Gain (Loss) Reclassified from OCI to Income	Gain (Loss) Reclassified from OCI to Income (Effective Portion)	Gain (Loss) Recognized in Income (Ineffective Portion*)

Interest Rate Contracts	$(9.8)	Interest expense	$ —	$ —
Foreign Exchange Contracts	$(11.0)	Cost of Sales	$ 2.2	$ —

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Year-to-date 2011 (In millions)	Gain (Loss) Recorded in OCI	Classification of Gain (Loss) Reclassified from OCI to Income	Gain (Loss) Reclassified from OCI to Income (Effective Portion)	Gain (Loss) Recognized in Income (Ineffective Portion*)
Interest Rate Contracts	$(62.0)	Interest expense	$ —	$ —
Foreign Exchange Contracts	$(2.2)	Cost of sales	$ (20.5)	—

* Includes ineffective portion and amount excluded from effectiveness testing on derivatives.

For the third quarter and nine months ended September 29, 2012, the hedged items' impact to the Consolidated Statement of Operations and Comprehensive Income was a loss of $1.2 million and a loss of $2.2 million, respectively, in Cost of Sales, which is offsetting the loss shown above. For the third quarter and nine months ended October 1, 2011, the hedged items' impact to the Consolidated Statement of Operations and Comprehensive Income was a gain of $10.2 million and $20.5 million in Cost of Sales. There was no impact related to the interest rate contracts' hedged items and the impact of de-designated hedges was immaterial for all periods presented.

For the three and nine months ended September 29, 2012 an after-tax loss of $0.1 million and $0.9 million, respectively, were reclassified from Accumulated other comprehensive income (loss) into earnings (inclusive of the gain/loss amortization on terminated derivative instruments) during the periods in which the underlying hedged transactions affected earnings. For the third quarter and nine months ended October 1, 2011, an after-tax loss of $6.6 million and $14.9 million, respectively, were reclassified from Accumulated other comprehensive income (loss) into earnings (inclusive of the gain/loss amortization on terminated derivative financial instruments) during the periods in which the underlying hedged transactions affected earnings.

Interest Rate Contract: The Company enters into interest rate swap agreements in order to obtain the lowest cost source of funds within a targeted range of variable to fixed-rate debt proportions. At September 29, 2012 and December 31, 2011, the Company had $160.0 million and $400.0 million, respectively, of forward starting swaps outstanding fixing the interest rate on the expected refinancing of debt in 2012 as discussed below.

In December 2009, the Company executed forward starting interest rate swaps with an aggregate notional amount of $400.0 million fixing interest at 4.7835%. The objective of the hedge was to offset the expected variability on future payments associated with the interest rate on debt instruments. In January 2012, contracts with a total notional amount of $240.0 million of these forward-starting interest rate swaps were terminated. The terminations resulted in cash payments of $56.4 million, which was recorded in accumulated other comprehensive loss and will be amortized to earnings over future periods. The cash flows stemming from the termination of such interest rate swaps designated as cash flow hedges are presented within financing activities in the Condensed Consolidated Statement of Cash Flows.

Foreign Currency Contracts

Forward Contracts: Through its global businesses, the Company enters into transactions and makes investments denominated in multiple currencies that give rise to foreign currency risk. The Company and its subsidiaries regularly purchase inventory from subsidiaries with non-U.S. dollar functional currencies which creates currency-related volatility in the Company's results of operations. The Company utilizes forward contracts to hedge these forecasted purchases of inventory. Gains and losses reclassified from accumulated other comprehensive loss for the effective and ineffective portions of the hedge as well as any amounts excluded from effectiveness testing are recorded in cost of sales. Gains and losses incurred after a hedge has been de-designated are not recorded in Accumulated other comprehensive income, but are recorded directly to the Consolidated Statement of Operations and Comprehensive Income in other-net. At September 29, 2012, the notional value of forward currency contracts outstanding was $195.8 million, all of which was designated, and matures at various dates through 2013. At December 31, 2011, the notional value of forward currency contracts outstanding was $196.8 million, of which $19.8 million has been de-designated, maturing at various dates through 2013.

Purchased Option Contracts: The Company and its subsidiaries have entered into various inter-company transactions whereby the notional values are denominated in currencies other than the functional currencies of the party executing the trade. In order to better match the cash flows of its inter-company obligations with cash flows from operations, the Company enters into purchased option contracts. Gains and losses reclassified from accumulated other comprehensive income (loss) for the effective and ineffective portions of the hedge as well as any amounts excluded from effectiveness testing are recorded in cost of sales. At September 29,2012, the notional value of purchased option contracts was $376.0 million maturing at various dates through 2013. As of December 31, 2011, there were no purchased option contracts outstanding.

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FAIR VALUE HEDGES

Interest Rate Risk: In an effort to optimize the mix of fixed versus floating rate debt in the Company's capital structure, the Company enters into interest rate swaps. In January 2012, the Company entered into interest rate swaps with a notional value of $150.0 million, related to the Company's $150.0 million 7.05% notes due in 2028. Also, in January 2012, the Company entered into an incremental interest rate swap with a notional value of $200.0 million, related to the Company's $400.0 million 3.4% notes due in 2021, as a $200.0 million notional value interest rate swap from December 2011 was already in place. These interest rate swaps effectively converted the Company's fixed rate debt to floating rate debt based on LIBOR, thereby hedging the fluctuation in fair value resulting from changes in interest rates. In January 2012, the Company terminated interest rate swaps with notional values equal to the Company's $300.0 million 4.75% notes due in 2014, $300.0 million 5.75% notes due in 2016, $200.0 million 4.9% notes due in 2012 and $250.0 million 6.15% notes due in 2013. These terminations resulted in cash receipts of $35.8 million. The resulting gain of $28.0 million was deferred and will be amortized to earnings over the remaining life of the notes. In the third quarter of 2012, the Company repurchased the $250.0 million 6.15% notes due 2013 and $300.0 million 4.75% notes due 2014 and, as a result, $11.1 million of the previously deferred gain was recognized in earnings during the quarter. The changes in fair value of the interest rate swaps during the period were recognized in earnings as well as the offsetting changes in fair value of the underlying notes. The notional value of open contracts was $550.0 million and $1.25 billion as of September 29, 2012 and December 31, 2011, respectively. A summary of the fair value adjustments relating to these swaps is as follows (in millions):

	Third Quarter 2012		Year-to-Date 2012	
Income Statement Classification	Gain/(Loss) on Swaps	Gain /(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain /(Loss) on Borrowings
Interest Expense	$0.7	$(0.7)	$25.7	$(25.7)

	Third Quarter 2011		Year-to-Date 2011	
Income Statement Classification	Gain/(Loss) on Swaps	Gain /(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain /(Loss) on Borrowings
Interest Expense	$17.0	$(17.0)	$28.0	$(28.0)

In addition to the amounts in the table above, the net swap accruals for each period and amortization of the gains on terminated swaps are also reported as a reduction of interest expense and totaled $16.4 million and $29.6 million for the third quarter and nine months ended September 29, 2012, respectively, and $4.9 million and $14.3 million for the third quarter and nine months ended October 1, 2011, respectively. Interest expense on the underlying debt was $6.0 million and $21.8 million for the third quarter and nine months ended September 29, 2012, respectively, and $14.0 million and $41.6 million for the three and nine months ended October 1, 2011, respectively.

NET INVESTMENT HEDGES

Foreign Exchange Contracts: The Company utilizes net investment hedges to offset the translation adjustment arising from re-measurement of its investment in the assets and liabilities of its foreign subsidiaries. The total after-tax amounts in accumulated other comprehensive loss were losses of $65.5 million and $32.7 million at September 29, 2012 and December 31, 2011, respectively. As of September 29, 2012, the Company had foreign exchange contracts that mature at various dates through July 2013 with notional values totaling $956.4 million outstanding hedging a portion of its pound sterling denominated net investment. As of December 31, 2011, the Company had foreign exchange contracts that mature at various dates through October 2012 with notional values totaling $925.4 million outstanding hedging a portion of its pound sterling denominated net investment. For the first nine months of 2012, maturing foreign exchange contracts resulted in net cash receipts of $11.8 million. For the first nine months of 2011, maturing foreign exchange contracts resulted in net cash payments of $34.5 million. Gains and losses on net investment hedges remain in accumulated other comprehensive income (loss) until disposal of the underlying assets.

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The pre-tax gain or loss from year-to-date fair value changed was as follows (in millions):

	Third Quarter 2012			Year-to-Date 2012		
Income Statement Classification	Amount Recorded in OCI Gain (Loss)	Effective Portion Recorded in Income Statement	Ineffective Portion* Recorded in Income Statement	Amount Recorded in OCI Gain (Loss)	Effective Portion Recorded in Income Statement	Ineffective Portion* Recorded in Income Statement
Other-net	$(45.7)	$—	$—	$(52.8)	$—	$—

	Third Quarter 2011			Year-to-Date 2011		
Income Statement Classification	Amount Recorded in OCI Gain (Loss)	Effective Portion Recorded in Income Statement	Ineffective Portion* Recorded in Income Statement	Amount Recorded in OCI Gain (Loss)	Effective Portion Recorded in Income Statement	Ineffective Portion* Recorded in Income Statement
Other-net	$23.6	$—	$—	$(12.4)	$—	$—

* Includes ineffective portion and amount excluded from effectiveness testing.

UNDESIGNATED HEDGES

Foreign Exchange Contracts: Currency swaps and foreign exchange forward contracts are used to reduce risks arising from the change in fair value of certain foreign currency denominated assets and liabilities (such as affiliate loans, payables and receivables). The objective of these practices is to minimize the impact of foreign currency fluctuations on operating results. The total notional amount of the contracts outstanding at September 29, 2012 was $4.3 billion of forward contracts and $106.2 million in currency swaps, maturing at various dates primarily through August 2013 with the currency swap maturing in December 2014. The total notional amount of the contracts outstanding at December 31, 2011 was $3.9 billion of forward contracts and $100.8 million in currency swaps. The income statement impacts related to derivatives not designated as hedging instruments for 2012 and 2011 are as follows (in millions):

Derivatives Not Designated as Hedging Instruments under ASC 815	Income Statement Classification	Third Quarter 2012 Amount of Gain (Loss) Recorded in Income on Derivative	Year-to-Date 2012 Amount of Gain (Loss) Recorded in Income on Derivative
Foreign Exchange Contracts	Other-net	$ 30.3	$ 30.2

Derivatives Not Designated as Hedging Instruments under ASC 815	Income Statement Classification	Third Quarter 2011 Amount of Gain (Loss) Recorded in Income on Derivative	Year-to-Date 2011 Amount of Gain (Loss) Recorded in Income on Derivative
Foreign Exchange Contracts	Other-net	$ 45.9	$ 6.3

J. Equity Arrangements

In the third quarter of 2011, the Company entered into a forward share purchase contract on its common stock. This contract obligates the Company to pay $350.0 million, subject to certain adjustments, to the financial institution counterparty not later than August 2013 or earlier at the Company’s option, for the 5,581,400 shares purchased. The reduction of common shares outstanding was recorded at inception of the forward share purchase contract and factored into the calculation of weighted average shares outstanding.

Convertible Preferred Units and Equity Option

As described more fully in Note H, Long-Term Debt and Financing Arrangements, of the Company's Form 10-K for the year ended December 31, 2011, in November 2010 the Company issued Convertible Preferred Units comprised of $632,500,000 of Notes due November 17, 2018 and Purchase Contracts. The Purchase Contracts obligate the holders to purchase, on the earlier of (i) November 17, 2015 (the Purchase Contract Settlement date) or (ii) the triggered early settlement date, 6,325,000 shares, for $100 per share, of the Company's 4.75% Series B Cumulative Convertible Preferred Stock (the "Convertible Preferred Stock"), resulting in cash proceeds to the Company of up to $632.5 million. Following the issuance of Convertible Preferred Stock upon settlement of a holder's Purchase Contracts, a holder of Convertible Preferred Stock may, at its option, at any time and from time to time, convert some or all of its outstanding shares of Convertible Preferred Stock at a conversion rate of 1.3333 shares of the Company's common stock per share of Convertible Preferred Stock (subject to customary anti-dilution provisions), which is equivalent to an initial conversion price of

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approximately $75.00 per share of common stock. Assuming conversion of the 6,325,000 shares of Convertible Preferred Stock at the 1.3333 initial conversion rate a total of 8.43 million shares of the Company's common stock may be issued upon conversion. As of September 29, 2012, due to the customary anti-dilution provisions, the conversion rate on the Convertible Preferred Stock is 1.3446 (equivalent to a conversion price of approximately $74.37 per common share). In the event that holders elect to settle their Purchase Contracts prior to November 17, 2015, the Company will deliver a number of shares of Convertible Preferred Stock equal to 85% of the Purchase Contracts tendered, together with cash in lieu of fractional shares. Upon a conversion on or after November 15, 2015 the Company may elect to pay or deliver, as the case may be, solely shares of common stock, together with cash in lieu of fractional shares ("physical settlement"), solely cash ("cash settlement"), or a combination of cash and common stock ("combination settlement"). The Company may redeem some or all of the Convertible Preferred Stock on or after December 22, 2015 at a redemption price equal to 100% of the $100 liquidation preference per share plus accrued and unpaid dividends to the redemption date.

In November 2010, contemporaneously with the issuance of the Convertible Preferred Units described above, the Company paid $50.3 million, or an average of $5.97 per option, to enter into capped call transactions (equity options) on 8.43 million shares of common stock with certain major financial institutions. The purpose of the capped call transactions is to offset the common shares that may be deliverable upon conversion of shares of Convertible Preferred Stock. With respect to the impact on the Company, the capped call transactions and the Convertible Preferred Stock, when taken together, result in the economic equivalent of having the conversion price on the Convertible Preferred Stock at $97.12, the upper strike price of the capped call (as of September 29, 2012). Refer to Note H, Long-Term Debt and Financing Arrangements, and Note J, Capital Stock, of the Company's Form 10-K for the year ended December 31, 2011 for further discussion. In accordance with ASC 815-40 "Derivatives and Hedging – Contracts in Entity's own Equity", the $50.3 million premium paid was recorded as a reduction to equity.

The capped call transactions cover, subject to customary anti-dilution adjustments, the number of shares of common stock equal to the number of shares of common stock underlying the maximum number of shares of Convertible Preferred Stock issuable upon settlement of the Purchase Contracts. Each of the capped call transactions has a term of approximately 5 years and initially had a lower strike price of $75.00, which corresponded to the initial conversion price of the Convertible Preferred Stock, and an upper strike price of $97.95, which was approximately 60% higher than the closing price of the common stock on November 1, 2010. The capped call transactions may be settled by net share settlement (the default settlement method) or, at the Company's option and subject to certain conditions, cash settlement, physical settlement or modified physical settlement. The aggregate fair value of options at September 29, 2012 was $69.4 million.

A summary of the capped call (equity options) issued is as follows:

Series	Original Number of Options	Net Premium Paid (In millions)	(Per Share) Adjusted Lower Strike Price	Adjusted Upper Strike Price
Series I	2,811,041	$16.8	$74.37	$97.12
Series II	2,811,041	$16.8	$74.37	$97.12
Series III	2,811,041	$16.7	$74.37	$97.12
	8,433,123	$50.3	$74.37	$97.12

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K. Net Periodic Benefit Cost — Defined Benefit Plans

Following are the components of net periodic benefit cost for the three and nine months ended September 29, 2012 and October 1, 2011 (in millions):

	Third Quarter					
	Pension Benefits				Other Benefits	
	U.S. Plans		Non-U.S. Plans		All Plans	
	2012	2011	2012	2011	2012	2011
Service cost	$1.6	$1.6	$2.8	$3.3	$0.2	$—
Interest cost	15.6	17.6	11.4	13.3	0.7	0.8
Expected return on plan assets	(16.6)	(17.5)	(10.8)	(12.7)	—	—
Amortization of prior service cost (credit)	0.3	0.3	0.1	0.1	(0.3)	(0.2)
Amortization of transition obligation	—	—	—	(0.1)	—	—
Amortization of net loss	1.5	0.6	0.8	0.8	—	—
Curtailment loss	$—	$—	$1.2	$—	$—	$—
Net periodic cost	$2.4	$2.6	$5.5	$4.7	$0.6	$0.6

	Year-to-Date					
	Pension Benefits				Other Benefits	
	U.S. Plans		Non-U.S. Plans		All Plans	
	2012	2011	2012	2011	2012	2011
Service cost	$4.9	$4.8	$8.6	$9.4	$0.7	$0.5
Interest cost	46.8	52.6	34.5	39.9	2.1	2.7
Expected return on plan assets	(49.8)	(52.5)	(32.5)	(38.2)	—	—
Amortization of prior service cost (credit)	0.8	0.8	0.3	0.3	(0.9)	(0.9)
Amortization of net loss	4.6	1.9	2.3	2.3	—	—
Curtailment loss	—	—	1.8	—	—	—
Net periodic cost	$7.3	$7.6	$15.0	$13.7	$1.9	$2.3

L. Fair Value Measurements

ASC 820 establishes a consistent framework for measuring, and expands disclosure requirements about fair value. ASC 820 requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs and significant value drivers are observable.

Level 3 — Instruments that are valued using unobservable inputs.

The Company holds various derivative financial instruments that are employed to manage risks, including foreign currency and interest rate exposures. These financial instruments are carried at fair value and are included within the scope of ASC 820. The Company determines the fair value of derivatives through the use of matrix or model pricing, which utilizes verifiable inputs such as market interest and currency rates. When determining the fair value of these financial instruments for which Level 1 evidence does not exist, the Company considers various factors including the following: exchange or market price quotations of similar instruments, time value and volatility factors, the Company's own credit rating and the credit rating of the counter-party.

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The following table presents the Company's financial assets and liabilities that are measured at fair value on a recurring basis for each of the hierarchy levels (millions of dollars):

	Total Carrying Value	Level 1	Level 2
September 29, 2012:			
Money market fund	$ 9.6	$ 9.6	$ —
Derivative assets	$ 122.5	$ —	$ 122.5
Derivative liabilities	$ 153.0	$ —	$ 153.0
December 31, 2011:			
Money market fund	$ 39.0	$ 39.0	$ —
Derivative assets	$ 142.5	$ —	$ 142.5
Derivative liabilities	$ 181.7	$ —	$ 181.7

The Company had no financial assets or liabilities measured using Level 3 inputs, nor any assets measured at fair value on a non-recurring basis during 2012 and 2011.

Refer to Note I, Derivative Financial Instruments, for more details regarding derivative financial instruments, and Note H, Long-Term Debt and Financing Arrangements, for more information regarding carrying values of the long-term debt shown below.

	September 29, 2012		December 31, 2011	
(millions of dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	$ 2,937.5	$ 3,040.3	$ 3,452.2	$ 3,623.4
Derivative assets	$ 122.5	$ 122.5	$ 142.5	$ 142.5
Derivative liabilities	$ 153.0	$ 153.0	$ 181.7	$ 181.7

The fair values of long-term debt instruments are considered Level 2 instruments within the fair value hierarchy and are estimated using a discounted cash flow analysis, based on the Company's marginal borrowing rates. The fair value of the Company's variable rate short term borrowings approximate their carrying value at September 29, 2012. The fair values of foreign currency and interest rate swap agreements, comprising the derivative assets and liabilities in the table above, are based on current settlement values.

As discussed in Note D, Financing Receivables, the Company has a deferred purchase price receivable related to sales of trade receivables. The deferred purchase price receivable will be repaid in cash as receivables are collected, generally within 30 days, and as such the carrying value of the receivable approximates fair value.

M. Other Costs and Expenses

Other-net is primarily comprised of intangible asset amortization expense, currency gains or losses, environmental expense and merger and acquisition-related charges, primarily consisting of transaction costs. During the three and nine months ended September 29, 2012, Other-net included $12.0 million and $37.5 million in merger and acquisition-related costs, respectively. During the three and nine months ended October 1, 2011, Other-net included $33.7 million and $43.5 million in merger and acquisition-related costs, respectively.

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N. Restructuring & Asset Impairments

A summary of the restructuring reserve activity from December 31, 2011 to September 29, 2012 is as follows (in millions):

	12/31/2011	Additions (Reversals), net	Usage	Currency	9/29/2012
2012 Actions					
Severance and related costs	$—	$ 91.5	$(56.1)	$0.5	$35.9
Facility closures	$—	$ 15.2	$(10.1)	$—	$5.1
Asset Impairments	$—	$ 10.8	$(10.8)	$—	$—
Subtotal 2012 actions	$—	$ 117.5	$(77.0)	$0.5	$41.0
Pre-2012 Actions					
Severance and related costs	$82.4	$ (5.9)	$(25.8)	$0.3	$51.0
Facility closures	1.7	2.5	(0.2)	—	4.0
Subtotal Pre-2012 actions	$84.1	$ (3.4)	$(26.0)	$0.3	$55.0
Total	$84.1	$ 114.1	$(103.0)	$0.8	$96.0

2012 Actions: In the first nine months of 2012, the Company continued with restructuring activities associated with the Black & Decker merger, Niscayah and other acquisitions, and recognized $59.2 million of restructuring charges related to activities initiated in the current year. Of those charges, $37.5 million relates to severance charges associated with the reduction of approximately 500 employees, $10.9 million relates to facility closure costs, and $10.8 million relates to asset impairment charges. For the three months ended September 29, 2012, the Company recognized $28.6 million of restructuring charges related to activities initiated in the current year. Of those charges, $16.6 million relates to severance charges associated with the reduction of approximately 150 employees, $1.2 million relates to facility closure costs, and $10.8 million relates to asset impairment charges.

In addition, the Company has initiated cost reduction actions in the first nine months of 2012 that were not associated with any merger and acquisition activities, resulting in severance charges of $54.0 million pertaining to the reduction of approximately 1,000 employees, and $4.3 million of facility closure costs. For the three months ended September 29, 2012, the Company recognized severance charges of $23.8 million pertaining to the reduction of approximately 500 employees, and $1.3 million of facility closure costs.

Of the $41.0 million of reserves remaining as of September 29, 2012 the majority are expected to be utilized in the fourth quarter of 2012 and the first quarter of 2013.

Pre-2012 Actions: In the first nine months of 2012, the Company released $5.9 million of the severance reserve related to remaining liabilities for prior year initiatives, with $2.5 million of this reserve being released in the third quarter. The Company also recorded $2.5 million of facility closure costs associated with prior year initiatives in the first nine months of 2012, with $2.2 million recorded in the third quarter.

The vast majority of the remaining reserve balance of $55.0 million relating to pre-2012 actions is expected to be utilized in the fourth quarter of 2012 and the first half of 2013.

Segments: The $114.1 million of charges recognized in the first nine months of 2012 includes: $28.8 million pertaining to the CDIY segment; $33.6 million pertaining to the Security segment; $47.2 million pertaining to the Industrial segment; and $4.5 million pertaining to Corporate charges. During the third quarter of 2012, the Company recognized $53.4 million of charges including $8.1 million pertaining to the CDIY segment; $10.7 million pertaining to the Security segment; $31.6 million pertaining to the Industrial segment; and $3.0 million pertaining to Corporate charges.

O. Income Taxes

The Company recognized income tax expense of $28.8 million and $116.7 million for the three and nine month periods ended September 29, 2012 respectively, resulting in an effective tax rate of 20.0% and 23.0% respectively. The effective tax rate differs from the U.S. statutory tax rate for the three and nine month periods ended September 29, 2012, primarily due to a portion of the Company's earnings realized in lower-taxed foreign jurisdictions, the favorable settlement of certain tax contingencies which resulted in a net $6.6 million tax benefit and the realization of a foreign deferred tax asset attributable to the reduction of a valuation allowance for certain net operating losses resulting in a tax benefit of $7.0 million in the quarter.

The Company recognized income tax expense of $35.1 million and $86.0 million, for the three and nine months ended October 1, 2011 resulting in an effective tax rate of 17.8% and 14.3% respectively. The effective tax rate differs from the statutory tax rate for the three and nine month periods ended October 1, 2011 primarily due to a portion of the Company's

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earnings realized in lower-taxed foreign jurisdictions, the realization of benefits attributable to the reduction of certain foreign jurisdiction valuation allowances and the resolution of certain tax positions pertaining to prior years. The income tax expense for the nine month period includes benefits of $69.2 million, for the favorable settlement of certain tax contingencies partially offset by the inclusion of $17.5 million of uncertain tax positions related to ongoing operational and legal entity integrations.

The Company is subject to the examination of its income tax returns by the Internal Revenue Service and other taxing authorities both domestically and internationally. The final outcome of the future tax consequences of these examinations and legal proceedings, as well as the outcome of competent authority proceedings, changes and interpretation in regulatory tax laws, or expiration of statute of limitations could impact the Company's financial statements. Accordingly, the Company has tax reserves recorded for which it is reasonably possible that the amount of the unrecognized tax benefit will increase or decrease which could have a material effect on the financial results for any particular fiscal quarter or year. However, based on the uncertainties associated with litigation and the status of examinations, including the protocols of finalizing audits by the relevant tax authorities which could include formal legal proceedings, it is not possible to estimate the impact of any such change.

P. Business Segments

The Company classifies its business into three reportable segments, which also represent its operating segments: Construction & Do It Yourself (“CDIY”), Security, and Industrial.

The CDIY segment is comprised of the Professional Power Tool and Accessories businesses, the Consumer Power Tool business, the Hand Tools, Fasteners & Storage business and the Plumbing Products business. The Professional Power Tool and Accessories business sells professional grade corded and cordless electric power tools and equipment including drills, impact wrenches and drivers, grinders, saws, routers and sanders. The Consumer Power Tool business sells corded and cordless power tools, lawn and garden products and home products. The Hand Tools, Fasteners & Storage business sells measuring and leveling tools, planes, hammers, demolition tools, knives, saws and chisels. Fastening products include pneumatic tools and fasteners including nail guns, nails, staplers and staples. Storage products include tool boxes, sawhorses and storage units. The Plumbing Products business sells plumbing fixtures primarily for residential use.

The Security segment is comprised of the electronic security solutions ("CSS") and the Mechanical Access Solutions businesses. The CSS business designs, supplies and installs electronic security systems and provides electronic security services, including alarm monitoring, video surveillance, fire alarm monitoring, systems integration and system maintenance and repair. Purchasers of these systems typically contract for ongoing security systems monitoring and maintenance at the time of initial equipment installation. The CSS business also sells healthcare solutions which include medical carts and cabinets, asset tracking, infant protection, pediatric protection, patient protection, wander management, fall management, and emergency call products. The Mechanical Access Solutions business sells and installs automatic doors, residential and commercial hardware, locking mechanisms, electronic keyless entry systems, keying systems, tubular and mortise door locksets.

The Industrial segment is comprised of the Industrial and Automotive Repair, Engineered Fastening and Infrastructure businesses. The Industrial and Automotive Repair business sells hand tools, power tools, and engineered storage solution products. The Engineered Fastening business primarily sells engineered fasteners designed for specific applications. The businesses product lines include stud welding systems, blind rivets and tools, blind inserts and tools, drawn arc weld studs, engineered plastic fasteners, self-piercing riveting systems and precision nut running systems. The Infrastructure business consists of the CRC-Evans business, and the Company’s Hydraulics business. The business’s product lines include custom pipe handling machinery, joint welding and coating machinery, weld inspection services and hydraulic tools and accessories.

The Company utilizes segment profit, which is defined as net sales minus cost of sales and selling, general and administrative (“SG&A”) inclusive of the provision for doubtful accounts (aside from corporate overhead expense), and segment profit as a percentage of net sales to assess the profitability of each segment. Segment profit excludes the corporate overhead expense element of SG&A, interest income, interest expense, other-net (inclusive of intangible asset amortization expense), restructuring, and income tax expense. Refer to Note N, Restructuring and Asset Impairments, for the amount of restructuring charges by segment. Corporate overhead is comprised of world headquarters facility expense, cost for the executive management team and cost for certain centralized functions that benefit the entire Company but are not directly attributable to the businesses, such as legal and corporate finance functions. Transactions between segments are not material. Segment assets primarily include accounts receivable, inventory, other current assets, property, plant and equipment, intangible assets and other miscellaneous assets.

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	Third Quarter		Year-to-Date	
	2012	2011	2012	2011
NET SALES				
CDIY	$1,376.1	$1,337.6	$3,991.5	$3,912.8
Security	789.7	648.2	2,344.7	1,811.2
Industrial	620.9	633.9	1,917.6	1,860.5
Total	$2,786.7	$2,619.7	$8,253.8	$7,584.5
SEGMENT PROFIT				
CDIY	$200.3	$169.8	$564.6	$516.9
Security	120.2	107.3	319.2	283.8
Industrial	95.1	106.8	314.1	308.7
Segment profit	415.6	383.9	1,197.9	1,109.4
Corporate overhead	(61.8)	(55.3)	(184.7)	(172.4)
Other-net	(77.0)	(89.6)	(248.7)	(201.7)
Restructuring charges and asset impairments	(53.4)	(14.9)	(114.1)	(49.2)
Loss on debt extinguishment	(45.5)	—	(45.5)	—
Interest expense	(36.7)	(34.8)	(105.1)	(103.5)
Interest income	2.6	8.0	7.5	20.3
Earnings from continuing operations before income taxes	$143.8	$197.3	$507.3	$602.9

The Company recorded a total of $11.3 million and $25.4 million of merger and acquisition-related charges, respectively, which reduced segment gross profit associated with facility closures and an additional $16.7 million and $43.9 million, respectively, in SG&A primarily for integration costs associated with merger and acquisition-related activities for the three and nine month periods ended September 29, 2012. For the three and nine months ended October 1, 2011, the Company recorded a total of $13.8 million and $25.1 million of merger and acquisition-related charges, respectively, which reduced segment gross profit associated with facility closure and an additional $4.5 million and $6.7 million, respectively in SG&A primarily for integration costs associated with the merger and acquisition-related activities. These charges reduced segment profit by $17.2 million in CDIY, $10.2 million in Security and $0.6 million in Industrial for the three months ended September 29, 2012, and $6.7 million in CDIY, $11.1 million in Security, and $0.5 million for Industrial for the three months ended October 1, 2011. On a year-to-date basis, segment profit was reduced by $31.0 million in CDIY, $34.7 million in Security, and $3.6 million in Industrial for nine months ended September 29, 2012, and $13.3 million in CDIY, $17.7 million in Security, and $0.8 million in Industrial for the nine months ended October 1, 2011.

Corporate overhead for the three and nine months ended September 29, 2012 includes $22.5 million and $57.7 million, respectively, of charges pertaining primarily to merger and acquisition-related employee charges and integration costs. For the three and nine months ended October 1, 2011, such charges included in corporate overhead were $18.9 million and $50.3 million, respectively.

The following table is a summary of total assets by segment for the periods ended September 29, 2012 and December 31, 2011:

	September 29, 2012	December 31, 2011
CDIY	$7,678.0	$7,499.5
Security	5,577.4	5,167.4
Industrial	3,422.3	3,282.9
	16,677.7	15,949.8
Corporate assets	436.5	(0.8)
Consolidated	$17,114.2	$15,949.0

Corporate assets primarily consist of cash, deferred taxes and property, plant and equipment.

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Q. Commitments and Contingencies

The Company is involved in various legal proceedings relating to environmental issues, employment, product liability, workers' compensation claims and other matters. The Company periodically reviews the status of these proceedings with both inside and outside counsel, as well as an actuary for risk insurance. Management believes that the ultimate disposition of these matters will not have a material adverse effect on operations or financial condition taken as a whole.

The amount recorded for identified contingent liabilities is based on estimates. Amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. Actual costs to be incurred in future periods may vary from the estimates, given the inherent uncertainties in evaluating certain exposures. Subject to the imprecision in estimating future contingent liability costs, the Company does not expect that any sum it may have to pay in connection with these matters in excess of the amounts recorded will have a materially adverse effect on its financial position, results of operations or liquidity.

In connection with the 2010 merger with Black & Decker, the Company assumed certain commitments and contingent liabilities. Black & Decker is a party to litigation and administrative proceedings with respect to claims involving the discharge of hazardous substances into the environment. Some of these assert claims for damages and liability for remedial investigations and clean-up costs with respect to sites that have never been owned or operated by Black & Decker but at which Black & Decker has been identified as a potentially responsible party. Other matters involve current and former manufacturing facilities.

The Environmental Protection Agency ("EPA") and the Santa Ana Regional Water Quality Control Board have each initiated administrative proceedings against Black & Decker and certain of its current or former affiliates alleging that Black & Decker and numerous other defendants are responsible to investigate and remediate alleged groundwater contamination in and adjacent to a 160-acre property located in Rialto, California. The EPA and the cities of Colton and Rialto, as well as Goodrich Corporation, also initiated lawsuits against Black & Decker and certain of its former or current affiliates in the Federal District Court for California, Central District alleging similar claims that Black & Decker is liable under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), the Resource Conservation and Recovery Act, and state law for the discharge or release of hazardous substances into the environment and the contamination caused by those alleged releases. The City of Colton also has a companion case in California State court. The City of Riverside has a similar suit in California State Court with similar claims and the same parties. Both of these cases are currently stayed for all purposes. Certain defendants in that case have cross-claims against other defendants and have asserted claims against the State of California. The administrative proceedings and the lawsuits generally allege that West Coast Loading Corporation ("WCLC"), a defunct company that operated in Rialto between 1952 and 1957, and an as yet undefined number of other defendants are responsible for the release of perchlorate and solvents into the groundwater basin, and that Black & Decker and certain of its current or former affiliates are liable as a "successor" of WCLC. The Company believes that neither the facts nor the law support an allegation that Black & Decker is responsible for the contamination and, while continuing to contest these claims, the Company has been involved in settlement discussions among the EPA and other parties.

The EPA has provided to Black & Decker and certain of its current and former affiliates a "Notice of Potential Liability" related to environmental contamination found at the Centredale Manor Restoration Project Superfund site, located in North Providence, Rhode Island. The EPA has discovered a variety of contaminants at the site, including but not limited to, dioxins, polychlorinated biphenyls, and pesticides. The EPA alleged that Black & Decker and certain of its current and former affiliates are liable for site clean-up costs under CERCLA as successors to the liability of Metro-Atlantic, Inc., a former operator at the site, and demanded reimbursement of the EPA's costs related to this site. The EPA released a Proposed Remedial Action Plan in October 2011, which identified and described the EPA's preferred remedial alternative for the site. The estimated remediation costs related to this Centredale site (including the EPA's past costs as well as costs of additional investigation, remediation, and related costs such as EPA's oversight costs, less escrowed funds contributed by primary potentially responsible parties (PRPs) who have reached settlement agreements with the EPA), which the Company considers to be probable and reasonably estimable, range from approximately $68.1 million to $139.7 million, with no amount within that range representing a more likely outcome until such time as the EPA completes its remedy selection process for the site. The Company's reserve for this environmental remediation matter of $68.1 million reflects the fact that the EPA considers Metro-Atlantic, Inc. to be a primary source of contamination at the site. In September of 2012, the EPA released its Record of Decision (“ROD”) proposing an investigation and remediation plan for the site, and estimating the cost of such investigation and remediation. The plan and estimates outlined in the ROD do not alter the Company's estimate of the range of outcomes, or the reserve estimate based on that range. The Company has determined that it is likely to contest the EPA’s claims with respect to this site. Further, to the extent that the Company agrees to perform or finance additional remedial activities at this site, it intends to seek participation or contribution from additional PRPs and insurance carriers. As the specific nature of the environmental remediation activities that may be mandated by the EPA at this site have not yet been finally determined, the ultimate remedial costs associated with the site may vary from the amount accrued by the Company at September 29, 2012.

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In the event that no amount in the range of probable loss is considered most likely, the minimum loss in the range is accrued. In the normal course of business, the Company is involved in various lawsuits and claims. In addition, the Company is a party to a number of proceedings before federal and state regulatory agencies relating to environmental remediation. Also, the Company, along with many other companies, has been named as a PRP in a number of administrative proceedings for the remediation of various waste sites, including approximately 31 active Superfund sites. Current laws potentially impose joint and several liabilities upon each PRP. In assessing its potential liability at these sites, the Company has considered the following: whether responsibility is being disputed, the terms of existing agreements, experience at similar sites, and the Company's volumetric contribution at these sites.

The Company's policy is to accrue environmental investigatory and remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The amount of liability recorded is based on an evaluation of currently available facts with respect to each individual site and includes such factors as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. The liabilities recorded do not take into account any claims for recoveries from insurance or third parties. As assessments and remediation progress at individual sites, the amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. As of September 29, 2012 and December 31, 2011, the Company had reserves of $164.0 million and $164.8 million, respectively, for remediation activities associated with Company-owned properties, as well as for Superfund sites, for losses that are probable and estimable. Of the 2012 amount, $10.7 million is classified as current and $153.3 million as long-term which is expected to be paid over the estimated remediation period. The range of environmental remediation costs that is reasonably possible is $141.3 million to $282.6 million which is subject to change in the near term. The Company may be liable for environmental remediation of sites it no longer owns. Liabilities have been recorded on those sites in accordance with policy.

R. Guarantees

The Company's financial guarantees at September 29, 2012 are as follows (in millions):

(Millions of Dollars)	Term	Maximum Potential Payment	Carrying Amount of Liability
Guarantees on the residual values of leased properties	One to four years	$26.8	$—
Standby letters of credit	Up to three years	70.9	—
Commercial customer financing arrangements	Up to six years	17.4	13.1
Total		$115.1	$13.1

The Company has guaranteed a portion of the residual value arising from its synthetic lease program. This lease guarantee is for an amount up to $26.8 million while the fair value of the underlying building is estimated at $30.6 million. The related assets would be available to satisfy the guarantee obligations and therefore it is unlikely the Company will incur any future loss associated with this guarantee.

The Company provides various limited and full recourse guarantees to financial institutions that provide financing to U.S. and Canadian Mac Tool distributors for their initial purchase of the inventory and trucks necessary to function as a distributor. In addition, the Company provides limited and full recourse guarantees to financial institutions that extend credit to certain end retail customers of its U.S. Mac Tool distributors. The gross amount guaranteed in these arrangements is $17.4 million and the $13.1 million carrying value of the guarantees issued is recorded in debt and other liabilities as appropriate in the Condensed Consolidated Balance Sheets.

The Company provides product and service warranties which vary across its businesses. The types of warranties offered generally range from one year to limited lifetime, while certain products carry no warranty. Further, the Company sometimes incurs discretionary costs to service its products in connection with product performance issues. Historical warranty and service claim experience forms the basis for warranty obligations recognized. Adjustments are recorded to the warranty liability as new information becomes available.

The changes in the carrying amount of product and service warranties for the nine months ended September 29, 2012 and October 1, 2011 are as follows (in millions):

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	2012	2011
Balance beginning of period	$129.1	$119.0
Warranties and guarantees issued	69.8	81.7
Liability assumed from merger and acquisitions	0.2	9.5
Warranty payments and currency	(66.3)	(76.7)
Balance end of period	$132.8	$133.5

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S. Parent and Subsidiary Debt Guarantees

The following debt obligations were issued by Stanley Black & Decker, Inc. ("Stanley") and are fully and unconditionally guaranteed by The Black & Decker Corporation ("Black & Decker"), a 100% owned direct subsidiary of Stanley: 4.9% Notes due 2012; 3.4% Notes due 2021; and the 2040 Term Bonds (collectively, the "Stanley Notes"). The following notes were issued by Black & Decker and are fully and unconditionally guaranteed by Stanley: 5.75% Notes due 2016 (collectively, the "Black & Decker Notes").

The Stanley Notes and the Black & Decker Notes were issued under indentures attached as Exhibits to the Company's Form 10-K for the year ended January 1, 2011. Each of the Black & Decker Notes and Black & Decker's guarantee of the Stanley Notes rank equally with all of Black & Decker's other unsecured and unsubordinated indebtedness. The Stanley Guarantees of the Black & Decker Notes are unsecured obligations of the Company, ranking equal in right of payment with all the Company's existing and future unsecured and unsubordinated indebtedness.

The following tables, in accordance with Rule 3-10(e) of Regulation S-X for the Stanley Notes, and Rule 3-10(c) of Regulation S-X for the Black & Decker Notes, present the condensed consolidating balance sheets as of September 29, 2012 and December 31, 2011; the condensed consolidating statements of operations and comprehensive income for the three and nine months ended September 29, 2012, and October 1, 2011; and the condensed consolidating statements of cash flows for the nine months ended September 29, 2012, and October 1, 2011.

Stanley Black & Decker, Inc.

Condensed Consolidating Statements of Operations and Comprehensive Income

(Unaudited, Millions of Dollars)

Three Months Ended September 29, 2012

	Parent Stanley Black & Decker, Inc.	The Black & Decker Corporation	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ 357.3	$—	$ 2,518.6	$ (89.2)	$ 2,786.7
COSTS AND EXPENSES					
Cost of sales	271.7	—	1,576.8	(71.3)	1,777.2
Selling, general and administrative	187.4	6.6	479.6	(17.9)	655.7
Other - net	(8.0)	(39.0)	124.0	—	77.0
Restructuring charges and asset impairments	2.4	—	51.0	—	53.4
Loss on debt extinguishment	9.2	36.3	—	—	45.5
Interest expense, net	24.8	9.0	0.3	—	34.1
	487.5	12.9	2,231.7	(89.2)	2,642.9
(Loss) earnings from continuing operations before income taxes and equity in earnings of subsidiaries	(130.2)	(12.9)	286.9	—	143.8
Income taxes (benefit) on continuing operations before equity in earnings of subsidiaries	(43.3)	(5.1)	77.2	—	28.8
Equity in earnings of subsidiaries	202.1	202.1	—	(404.2)	—
Earnings from continuing operations	115.2	194.3	209.7	(404.2)	115.0
Less: net loss attributable to non-controlling interests	—	—	(0.2)	—	(0.2)
NET EARNINGS ATTRIBUTABLE TO COMMON SHAREOWNERS	$ 115.2	$ 194.3	$ 209.9	$ (404.2)	$ 115.2
Total Comprehensive Income Attributable to Common Shareowners	$ 392.8	$ 294.0	$ 529.5	$ (823.5)	$ 392.8

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Stanley Black & Decker, Inc.
Condensed Consolidating Statements of Operations and Comprehensive Income
(Unaudited, Millions of Dollars)
Nine Months Ended September 29, 2012

	Parent Stanley Black & Decker, Inc.	The Black & Decker Corporation	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ 1,042.8	$—	$ 7,486.2	$(275.2)	$8,253.8
COSTS AND EXPENSES					
Cost of sales	724.9	—	4,731.4	(220.4)	5,235.9
Selling, general and administrative	519.5	17.8	1,522.2	(54.8)	2,004.7
Other - net	(22.3)	(72.0)	343.0	—	248.7
Restructuring charges and asset impairments	3.4	—	110.7	—	114.1
Loss on debt extinguishment	9.2	36.3	—	—	45.5
Interest expense, net	63.8	32.7	1.1	—	97.6
	1,298.5	14.8	6,708.4	(275.2)	7,746.5
(Loss) earnings from continuing operations before income taxes and equity in earnings of subsidiaries	(255.7)	(14.8)	777.8	—	507.3
Income taxes (benefit) on continuing operations before equity in earnings of subsidiaries	(81.9)	(5.9)	204.5	—	116.7
Equity in earnings of subsidiaries	565.6	498.1	—	(1,063.7)	—
Earnings from continuing operations	391.8	489.2	573.3	(1,063.7)	390.6
Less: net loss attributable to non-controlling interests	—	—	(1.2)	—	(1.2)
NET EARNINGS ATTRIBUTABLE TO COMMON SHAREOWNERS	$ 391.8	$489.2	$ 574.5	$(1,063.7)	$391.8
Total Comprehensive Income Attributable to Common Shareowners	$ 471.0	$32.8	$ 709.4	$(742.2)	$471.0

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Stanley Black & Decker, Inc.
Condensed Consolidating Statement of Operations and Comprehensive Income
(Unaudited, Millions of Dollars)
Three Months Ended October 1, 2011

	Parent Stanley Black & Decker, Inc.	The Black & Decker Corporation	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ 411.7	$—	$ 2,312.5	$ (104.5)	$ 2,619.7
COSTS AND EXPENSES					
Cost of sales	271.4	—	1,465.5	(85.5)	1,651.4
Selling, general and administrative	175.4	0.8	482.5	(19.0)	639.7
Other - net	8.8	(36.6)	117.4	—	89.6
Restructuring charges and asset impairments	3.6	—	11.3	—	14.9
Interest expense, net	18.2	11.7	(3.1)	—	26.8
	477.4	(24.1)	2,073.6	(104.5)	2,422.4
(Loss) earnings from continuing operations before income taxes and equity in earnings of subsidiaries	(65.7)	24.1	238.9	—	197.3
Income (benefit) taxes on continuing operations before equity in earnings of subsidiaries	(17.4)	8.6	43.9	—	35.1
Equity in earnings of subsidiaries	210.5	106.7	—	(317.2)	—
Earnings from continuing operations	$ 162.2	$ 122.2	$ 195.0	$ (317.2)	$ 162.2
Less: Net earnings attributable to non-controlling interests	$ —	$—	$ 0.7	$—	$ 0.7
Net earnings from continuing operations attributable to common shareholders	$ 162.2	$ 122.2	$ 194.3	$ (317.2)	$ 161.5
Net loss from discontinued operations	$ (6.9)	$—	$ (6.9)	$ 6.9	$ (6.9)
NET EARNINGS ATTRIBUTABLE TO COMMON SHAREOWNERS	$ 155.3	$ 122.2	$ 187.4	$ (310.3)	$ 154.6
Total Comprehensive (Loss) Income Attributable to Common Shareowners	$ (105.4)	$ 40.5	$ (67.4)	$ 26.9	$ (105.4)

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Stanley Black & Decker, Inc.
Condensed Consolidating Statement of Operations and Comprehensive Income
(Unaudited, Millions of Dollars)
Nine Months Ended October 1, 2011

	Parent Stanley Black & Decker, Inc.	The Black & Decker Corporation	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ 1,215.8	$—	$ 6,681.9	$(313.2)	$7,584.5
COSTS AND EXPENSES					
Cost of sales	815.9	—	4,216.1	(256.1)	4,775.9
Selling, general and administrative	523.9	2.9	1,401.9	(57.1)	1,871.6
Other - net	(4.8)	(66.6)	273.1	—	201.7
Restructuring charges and asset impairments	6.0	—	43.2	—	49.2
Interest expense, net	53.8	38.1	(8.7)	—	83.2
	1,394.8	(25.6)	5,925.6	(313.2)	6,981.6
(Loss) earnings from continuing operations before income taxes and equity in earnings of subsidiaries	(179.0)	25.6	756.3	—	602.9
Income taxes (benefit) on continuing operations before equity in earnings of subsidiaries	(53.1)	9.2	129.9	—	86.0
Equity in earnings of subsidiaries	642.8	452.5	—	(1,095.3)	—
Earnings from continuing operations	516.9	468.9	626.4	(1,095.3)	516.9
Less: net earnings attributable to non-controlling interests	—	—	0.4	—	0.4
Net earnings from continuing operations attributable to common shareowners	$ 516.9	$468.9	$ 626.0	$(1,095.3)	$516.5
Net loss from discontinued operations					