

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED
December 31, 2006

COMMISSION FILE NUMBER
1-1553

THE BLACK & DECKER CORPORATION
(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

52-0248090
(I.R.S. Employer Identification Number)

Towson, Maryland
(Address of principal executive offices)

21286
(Zip Code)

Registrant's telephone number, including area code:

410-716-3900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$.50 per share

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 twelve 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2006, was \$6.18 billion.

The number of shares of Common Stock outstanding as of January 26, 2007, was 65,600,202.

The exhibit index as required by Item 601(a) of Regulation S-K is included in Item 15 of Part IV of this report.

Documents Incorporated by Reference: Portions of the registrant's definitive Proxy Statement for the 2007 Annual Meeting of Stockholders are incorporated by reference in Part III of this Report.

PART I

ITEM 1. BUSINESS

(a) General Development of Business

The Black & Decker Corporation (collectively with its subsidiaries, the Corporation), incorporated in Maryland in 1910, is a leading global manufacturer and marketer of power tools and accessories, hardware and home improvement products, and technology-based fastening systems. With products and services marketed in over 100 countries, the Corporation enjoys worldwide recognition of its strong brand names and a superior reputation for quality, design, innovation, and value.

The Corporation is one of the world's leading producers of power tools, power tool accessories, and residential security hardware, and the Corporation's product lines hold leading market share positions in these industries. The Corporation is also a major global supplier of engineered fastening and assembly systems. The Corporation is one of the leading producers of faucets in North America. These assertions are based on total volume of sales of products compared to the total market for those products and are supported by market research studies sponsored by the Corporation as well as independent industry statistics available through various trade organizations and periodicals, internally generated market data, and other sources.

During the first quarter of 2006, the Corporation acquired Vector Products, Inc. (Vector). The addition of Vector to the Corporation's Power Tools and Accessories segment allows the Corporation to offer customers a broader range of products.

During the fourth quarter of 2004, the Corporation acquired the Porter-Cable and Delta Tools Group from Pentair, Inc. The Porter-Cable and Delta Tools Group (also referred to herein as the "Tools Group") included the Porter-Cable, Delta, DeVilbiss Air Power Company, Oldham Saw, and FLEX businesses. The Corporation sold the FLEX business in November 2005.

In November 2005, the Corporation completed the sale of DOM security hardware. In January 2004, the Corporation completed the sale of two European security hardware businesses, Corbin and NEMEF. The divested businesses are reflected as discontinued operations in the Consolidated Financial Statements included in Item 8 of Part II of this report, and as such, operating results, assets and liabilities, and cash flows of the discontinued European security hardware business have been reported separately from the continuing operations of the Corporation. For additional information about the discontinued European security hardware business, see the discussion in Note 3 of Notes to Consolidated Financial Statements included in Item 8 of Part II of this report.

(b) Financial Information About Business Segments

The Corporation operates in three reportable business segments: Power Tools and Accessories, including consumer and industrial power tools and accessories, lawn and garden tools, electric cleaning, automotive, and lighting products, and product service; Hardware and Home Improvement, including security hardware and plumbing products; and Fastening and Assembly Systems. For additional information about these segments, see Note 18 of Notes to Consolidated Financial Statements included in Item 8 of Part II, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of Part II of this report.

(c) Narrative Description of the Business

The following is a brief description of each of the Corporation's reportable business segments.

POWER TOOLS AND ACCESSORIES

The Power Tools and Accessories segment has worldwide responsibility for the manufacture and sale of consumer (home use) and industrial corded and cordless electric power tools and equipment, lawn and garden tools, consumer portable power products, home products, accessories and attachments for power tools, and product service. In addition, the Power Tools and Accessories segment has responsibility for the sale of security hardware to customers in Mexico, Central America, the Caribbean, and South America; for the sale of plumbing products to customers outside of the United States and Canada; and for sales of household products, principally in Europe and Brazil.

Power tools and equipment include drills, screwdrivers, impact wrenches and drivers, hammers, wet/dry vacuums, lights, radiochargers, saws, grinders, band saws, plate joiners, jointers, lathes, dust management systems, routers, planers, sanders, benchtop and stationary machinery, air tools, building instruments, air compressors, generators, laser products, jobsite security systems, and WORKMATE® project centers and related products. Lawn and garden tools include hedge trimmers, string trimmers, lawn mowers, edgers, pruners, shears, shrubbers, blower/vacuums, power sprayers, pressure washers, and related

accessories. Consumer portable power products include inverters, jump-starters, vehicle battery chargers, rechargeable spotlights, and other related products. Home products include stick, canister and hand-held vacuums; flexible flashlights; and wet scrubbers. Power tool accessories include drill bits, hammer bits, router bits, hacksaws and blades, circular saw blades, jig and reciprocating saw blades, screwdriver bits and quick-change systems, bonded and other abrasives, and worksite tool belts and bags. Product service provides replacement parts and repair and maintenance of power tools, equipment, and lawn and garden tools.

Power tools, lawn and garden tools, portable power products, home products, and accessories are marketed around the world under the BLACK & DECKER name as well as other trademarks, and trade names, including, without limitation, BLACK & DECKER; ORANGE AND BLACK COLOR SCHEME; POWERFUL SOLUTIONS; FIRESTORM; GELMAX COMFORT GRIP; MOUSE; BULLSEYE; PIVOT DRIVER; STORMSTATION; WORKMATE; BLACK & DECKER XT; VERSAPAK; SMARTDRIVER; QUANTUM PRO; CYCLONE; NAVIGATOR; DRAGSTER; SANDSTORM; PROJECTMATE; PIVOTPLUS; QUICK CLAMP; SIGHT LINE; CROSSFIRE; CROSSHAIR; 360°; QUATTRO; DECORMATE; LASERCROSS; AUTOWRENCH; SHOPMASTER BY DELTA; DEWALT; YELLOW AND BLACK COLOR SCHEME; GUARANTEED TOUGH; XRP; SITELOCK; PORTER-CABLE; GRAY AND BLACK COLOR SCHEME; TIGER SAW; PORTA-BAND; POWERBACK; EASY AIR; JOB BOSS; DELTA; THE DELTA TRIANGLE LOGO; UNISAW; BIESEMEYER; BLACK AND WHITE COLOR SCHEME; DAPC; EMGLO; AFS AUTOMATIC FEED SPOOL; GROOM 'N' EDGE; HEDGE HOG; GRASS HOG; EDGE HOG; LEAF HOG; LAWN HOG; STRIMMER; REFLEX; VAC 'N' MULCH; EXCELL; ALLIGATOR; TRIM 'N' EDGE; HDL; TOUGH TRUCK; FLEX TUBE; VECTOR; ELECTROMATE; SIMPLE START; DUSTBUSTER; SNAKELIGHT; SCUMBUSTER; STEAMBUSTER; CYCLOPRO; SWEEP & COLLECT; CLICK & GO; B&D; BULLET; QUANTUM PRO; PIRANHA; SCORPION; QUICK CONNECT; PILOT POINT; RAPID LOAD; ROCK CARBIDE; TOUGH CASE; MAX LIFE; RAZOR; OLDHAM; DEWALT SERVICENET; DROP BOX EXPRESS; and GUARANTEED REPAIR COST (GRC).

The composition of the Corporation's sales by product groups for 2006, 2005, and 2004 is included in Note 18 of Notes to Consolidated Financial Statements included in Item 8 of Part II of this report. Within each product group shown, there existed no individual product that accounted for greater than 10% of the Corporation's consolidated sales for 2006, 2005, or 2004.

The Corporation's product service program supports its power tools and lawn and garden tools. Replacement parts and product repair services are available through a network of company-operated service centers, which are identified and listed in product information material generally included in product packaging. At December 31, 2006, there were approximately 125 such service centers, of which roughly three-quarters were located in the United States. The remainder was located around the world, primarily in Canada and Asia. These company-operated service centers are supplemented by several hundred authorized service centers operated by independent local owners. The Corporation also operates reconditioning centers in which power tools, lawn and garden tools, and electric cleaning and lighting products are reconditioned and then re-sold through numerous company-operated factory outlets and service centers and various independent distributors.

Most of the Corporation's consumer power tools, lawn and garden tools, and electric cleaning, automotive, and lighting products sold in the United States carry a two-year warranty, pursuant to which the consumer can return defective products during the two years following the purchase in exchange for a replacement product or repair at no cost to the consumer. Most of the Corporation's industrial power tools sold in the United States carry a one-year service warranty and a three-year warranty for manufacturing defects. Products sold outside of the United States generally have varying warranty arrangements, depending upon local market conditions and laws and regulations.

The Corporation's product offerings in the Power Tools and Accessories segment are sold primarily to retailers, wholesalers, distributors, and jobbers, although some discontinued or reconditioned power tools, lawn and garden tools, consumer portable power products, and electric cleaning and lighting products are sold through company-operated service centers and factory outlets directly to end users. Sales to two of the segment's customers, The Home Depot and Lowe's Home Improvement Warehouse, accounted for greater than 10% of the Corporation's consolidated sales for 2006, 2005, and 2004. For additional information regarding sales to The Home Depot and Lowe's Home Improvement Warehouse, see Note 18 of Notes to Consolidated Financial Statements included in Item 8 of Part II of this report.

The principal materials used in the manufacturing of products in the Power Tools and Accessories segment are batteries, copper, aluminum, steel, certain electronic components, engines, and plastics. These materials are used in various forms. For example, aluminum or steel may be used in the form of wire, sheet, bar, and strip stock.

The materials used in the various manufacturing processes are purchased on the open market, and the majority are available through multiple sources and are in adequate supply. The Corporation has experienced no significant work stoppages to date as a result of shortages of materials.

The Corporation has certain long-term commitments for the purchase of various component parts and raw materials and believes that it is unlikely that any of these agreements would be terminated prematurely. Alternate sources of supply at competitive prices are available for most items for which long-term commitments exist. Because the Corporation is a leading producer of power tools and accessories, in a limited number of instances, the magnitude of the Corporation's purchases of certain items is of such significance that a change in the Corporation's established supply relationship may cause disruption in the marketplace and/or a temporary price imbalance. While the Corporation believes that the termination of any of these commitments would not have a material adverse effect on the operating results of the Power Tools and Accessories segment over the long term, the termination of a limited number of these commitments would have an adverse effect over the short term. In this regard, the Corporation defines long term as a period of time in excess of 12 months and short term as a period of time under 12 months.

Principal manufacturing and assembly facilities of the power tools, lawn and garden tools, electric cleaning and lighting products, and accessories businesses in the United States are located in Jackson, Tennessee; Decatur, Arkansas; Shelbyville, Kentucky; and Tampa, Florida. The principal distribution facilities in the United States, other than those located at the manufacturing and assembly facilities listed above, are located in Fort Mill, South Carolina, and Rialto, California.

Principal manufacturing and assembly facilities of the power tools, lawn and garden tools, electric cleaning and lighting products, and accessories businesses outside of the United States are located in Suzhou, China; Usti nad Labem, Czech Republic; Buchlberg, Germany; Perugia, Italy; Spennymoor, England; Reynosa, Mexico; and Uberaba, Brazil. In addition to the principal facilities described above, the manufacture and assembly of products for the Power Tools and Accessories segment also occurs at the facility of its 50%-owned joint venture located in Shen Zhen, China. The principal distribution facilities outside of the United States, other than those located at the manufacturing facilities listed above, consist of a central-European distribution center in Tongeren, Belgium, and facilities in Aarschot, Belgium; Northampton, England; Dubai, United Arab Emirates; and Brockville, Canada.

For additional information with respect to these and other properties owned or leased by the Corporation, see Item 2, "Properties."

The Corporation holds various patents and licenses on many of its products and processes in the Power Tools and Accessories segment. Although these patents and licenses are important, the Corporation is not materially dependent on such patents or licenses with respect to its operations.

The Corporation holds various trademarks that are employed in its businesses and operates under various trade names, some of which are stated previously. The Corporation believes that these trademarks and trade names are important to the marketing and distribution of its products.

A significant portion of the Corporation's sales in the Power Tools and Accessories segment is derived from the do-it-yourself and home modernization markets, which generally are not seasonal in nature. However, sales of certain consumer and industrial power tools tend to be higher during the period immediately preceding the Christmas gift-giving season, while the sales of most lawn and garden tools are at their peak during the late winter and early spring period. Most of the Corporation's other product lines within this segment generally are not seasonal in nature, but are influenced by other general economic trends.

The Corporation is one of the world's leaders in the manufacturing and marketing of portable power tools, electric lawn and garden tools, and accessories. Worldwide, the markets in which the Corporation sells these products are highly competitive on the basis of price, quality, and after-sale service. A number of competing domestic and foreign companies are strong, well-established manufacturers that compete on a global basis. Some of these companies manufacture products that are competitive with a number of the Corporation's product lines. Other competitors restrict their operations to fewer categories, and some offer only a narrow range of competitive products. Competition from certain of these manufacturers has been intense in recent years and is expected to continue.

HARDWARE AND HOME IMPROVEMENT

The Hardware and Home Improvement segment has worldwide responsibility for the manufacture and sale of security hardware products (except for the sale of security hardware in Mexico, Central America, the Caribbean, and South America). It also has responsibility for the manufacture of plumbing products and for the sale of plumbing products to customers in the United States and Canada. Security hardware products consist of residential and light commercial door locksets,

electronic keyless entry systems, exit devices, keying systems, tubular and mortise door locksets, general hardware, decorative hardware, lamps, and brass ornaments. General hardware includes door hinges, cabinet hinges, door stops, kick plates, and house numbers. Decorative hardware includes cabinet hardware, switchplates, door pulls, and push plates. Plumbing products consist of a variety of conventional and decorative lavatory, kitchen, and tub and shower faucets, bath and kitchen accessories, and replacement parts.

Security hardware products are marketed under a variety of trademarks and trade names, including, without limitation, KWIKSET SECURITY; KWIKSET MAXIMUM SECURITY; KWIKSET ULTRAMAX; SIGNATURES; KWIKSET; BEAUTY OF STRENGTH; BLACK & DECKER; TYLO; POLO; AVALON; ASHFIELD; SMARTSCAN; SMARTKEY; SMARTCODE; VENETIAN BRONZE; POWERBOLT; KWIK INSTALL; GEO; SAFE-LOCK BY BLACK & DECKER; BALDWIN; THE ESTATE COLLECTION; THE IMAGES COLLECTION; ARCHETYPES; LIFETIME FINISH; TIMELESS CRAFTSMANSHIP; LOGAN; SPRINGFIELD; HAMILTON; BLAKELY; MANCHESTER; CANTERBURY; MADISON; STONEGATE; EDINBURGH; KENSINGTON; BRISTOL; TREMONT; PEYTON; PASADENA; RICHLAND; WEISER; WEISER LOCK; COLLECTIONS BY WEISER LOCK; WELCOME HOME SERIES; ELEMENTS SERIES; BASICS BY WEISER LOCK; BRILLIANCE LIFETIME ANTI-TARNISH FINISH; POWERBOLT; POWERBOLT KEYLESS ACCESS SYSTEM; WEISERBOLT; and ENTRYSETS. Plumbing products are marketed under the trademarks and trade names PRICE PFISTER; CLASSIC SERIES BY PRICE PFISTER; PRICE PFISTER PROFESSIONAL SERIES; BACH; SOLO; CONTEMPRA; MARIELLE; CARMEL; PARISA; SAVANNAH; CATALINA; GEORGETOWN; TREVISO; AVALON; and ASHFIELD.

The composition of the Corporation's sales by product groups for 2006, 2005, and 2004 is included in Note 18 of Notes to Consolidated Financial Statements included in Item 8 of Part II of this report. Within each product group shown, there existed no individual product that accounted for greater than 10% of the Corporation's consolidated sales for 2006, 2005, or 2004.

Most of the Corporation's security hardware products sold in the United States carry a warranty, pursuant to which the consumer can return defective product during the warranty term in exchange for a replacement product at no cost to the consumer. Warranty terms vary by product and carry a lifetime warranty with respect to mechanical operations and range from a 5-year to a lifetime warranty with respect to finish. Products sold outside of the United States for residential use generally have similar warranty arrangements. Such arrangements vary, however, depending upon local market conditions and laws and regulations. Most of the Corporation's plumbing products sold in the United States carry a lifetime warranty with respect to function and finish, pursuant to which the consumer can return defective product in exchange for a replacement product or repair at no cost to the consumer.

The Corporation's product offerings in the Hardware and Home Improvement segment are sold primarily to retailers, wholesalers, distributors, and jobbers. Certain security hardware products are sold to commercial, institutional, and industrial customers. Sales to two of the segment's customers, The Home Depot and Lowe's Home Improvement Warehouse, accounted for greater than 10% of the Corporation's consolidated sales for 2006, 2005, and 2004. For additional information regarding sales to The Home Depot and Lowe's Home Improvement Warehouse, see Note 18 of Notes to Consolidated Financial Statements included in Item 8 of Part II of this report.

The principal materials used in the manufacturing of products in the Hardware and Home Improvement segment are zamak, brass, aluminum, steel, and ceramics. The materials used in the various manufacturing processes are purchased on the open market, and the majority are available through multiple sources and are in adequate supply. The Corporation has experienced no significant work stoppages to date as a result of shortages of materials.

The Corporation has certain long-term commitments for the purchase of various finished goods, component parts, and raw materials and believes that it is unlikely that any of these agreements would be terminated prematurely. Alternate sources of supply at competitive prices are available for most items for which long-term commitments exist. Because the Corporation is a leading producer of residential security hardware and faucets, in a limited number of instances, the magnitude of the Corporation's purchases of certain items is of such significance that a change in the Corporation's established supply relationship may cause disruption in the marketplace and/or a temporary price imbalance. While the Corporation believes that the termination of any of these commitments would not have a material adverse effect on the operating results of the Hardware and Home Improvement segment over the long term, the termination of a limited number of these commitments would have an adverse effect over the short term. In this regard, the Corporation defines long term as a period of time in excess

of 12 months and short term as a period of time under 12 months.

From time to time, the Corporation enters into commodity hedges on certain raw materials used in the manufacturing process to reduce the risk of market price fluctuations. As of December 31, 2006, the amount of commodity hedges outstanding was not material.

Principal manufacturing and assembly facilities of the Hardware and Home Improvement segment in the United States are located in Denison, Texas; and Reading, Pennsylvania.

Principal manufacturing and assembly facilities of the Hardware and Home Improvement segment outside of the United States are located in Mexicali and Nogales, Mexico. The principal distribution facilities in the United States, other than those located at the manufacturing and assembly facilities listed above, are located in Mira Loma, California; and Charlotte, North Carolina.

For additional information with respect to these and other properties owned or leased by the Corporation, see Item 2, "Properties."

The Corporation holds various patents and licenses on many of its products and processes in the Hardware and Home Improvement segment. Although these patents and licenses are important, the Corporation is not materially dependent on such patents or licenses with respect to its operations.

The Corporation holds various trademarks that are employed in its businesses and operates under various trade names, some of which are stated above. The Corporation believes that these trademarks and trade names are important to the marketing and distribution of its products.

A significant portion of the Corporation's sales in the Hardware and Home Improvement segment is derived from the do-it-yourself and home modernization markets, which generally are not seasonal in nature, but are influenced by trends in the residential and commercial construction markets and other general economic trends.

The Corporation is one of the world's leading producers of residential security hardware and is one of the leading producers of faucets in North America. Worldwide, the markets in which the Corporation sells these products are highly competitive on the basis of price, quality, and after-sale service. A number of competing domestic and foreign companies are strong, well-established manufacturers that compete on a global basis. Some of these companies manufacture products that are competitive with a number of the Corporation's product lines. Other competitors restrict their operations to fewer categories, and some offer only a narrow range of competitive products. Competition from certain of these manufacturers has been intense in recent years and is expected to continue.

FASTENING AND ASSEMBLY SYSTEMS

The Corporation's Fastening and Assembly Systems segment has worldwide responsibility for the development, manufacture and sale of an extensive line of metal and plastic fasteners and engineered fastening systems for commercial applications, including blind riveting, stud welding, specialty screws, prevailing torque nuts and assemblies, insert systems, metal and plastic fasteners, and self-piercing riveting systems. The fastening and assembly systems products are marketed under a variety of trademarks and trade names, including, without limitation, EMHART TEKNOLOGIES; EMHART FASTENING TEKNOLOGIES; EMHART; AUTOSET; DODGE; DRIL-KWICK; F-SERIES; GRIPCO; GRIPCO ASSEMBLIES; HELI-COIL; JACK NUT; KALEI; MASTERFIX; NPR; NUT-FAST; PARKER-KALON; PLASTIFAST; PLASTI-KWICK; POINT & SET; POP; POP-LOK; POPMATIC; POPNUT; POP-SERT; POWERLINK; PROSET; SMARTSET; SWS; TUCKER; ULTRA-GRIP; ULTRASERT; WARREN; WELDFAST; and WELL-NUT. The Fastening and Assembly Systems segment provides platform-management and engineering services in addition to the manufacture and sale of the products previously described.

The composition of the Corporation's sales by product groups for 2006, 2005, and 2004 is included in Note 18 of Notes to Consolidated Financial Statements included in Item 8 of Part II of this report. Within each product group shown, there existed no individual product that accounted for greater than 10% of the Corporation's consolidated sales for 2006, 2005, or 2004.

The principal markets for these products include the automotive, transportation, electronics, aerospace, machine tool, and appliance industries. Substantial sales are made to automotive manufacturers worldwide.

Products are marketed directly to customers and also through distributors and representatives. These products face competition from many manufacturers in several countries. Product quality, performance, reliability, price, delivery, and technical and application engineering services are the primary competitive factors. There is little seasonal variation in sales.

The Corporation owns a number of United States and foreign patents, trademarks, and license rights relating to the fastening and assembly systems business. While the Corporation considers those patents, trademarks, and license rights to be valuable, it is not materially dependent upon such patents or license rights with respect to its operations.

Principal manufacturing facilities of the Fastening and Assembly Systems segment in the United States are located in Danbury, Connecticut; Montpelier, Indiana; Campbellsville and Hopkinsville, Kentucky; and Chesterfield, Michigan. Principal manufacturing and assembly facilities outside of the United States are located in Birmingham, England; Giessen, Germany; and Toyohashi, Japan. For additional information with respect to these and other properties owned or leased by the Corporation, see Item 2, "Properties."

The raw materials used in the fastening and assembly systems business consist primarily of ferrous and nonferrous metals in the form of wire, bar stock, and strip and sheet metals; plastics; and rubber. These materials are readily available from a number of suppliers.

OTHER INFORMATION

The Corporation's product development program for the Power Tools and Accessories segment is coordinated from the Corporation's headquarters in Towson, Maryland. Additionally, product development activities are performed at facilities within the United States in Fort Lauderdale, Florida, Hampstead, Maryland, and Jackson, Tennessee, and at facilities in Maltby and Spennymoor, England; Brockville, Canada; Perugia, Italy; Suzhou, China; Buchlberg and Idstein, Germany; Mooroolbark, Australia; Uberaba, Brazil; and Reynosa, Mexico.

Product development activities for the Hardware and Home Improvement segment are performed at facilities in Lake Forest, California, and Reading, Pennsylvania.

Product development activities for the Fastening and Assembly Systems segment are performed at facilities within the United States in Danbury and Shelton, Connecticut; Montpelier, Indiana; Campbellsville, Kentucky; Chesterfield and Farmington Hills, Michigan; and at facilities in Birmingham, England; Maastricht, Netherlands; Giessen, Germany; and Toyohashi, Japan.

Costs associated with development of new products and changes to existing products are charged to operations as incurred. See Note 1 of Notes to Consolidated Financial Statements included in Item 8 of Part II of this report for amounts of expenditures for product development activities.

As of December 31, 2006, the Corporation employed approximately 25,500 persons in its operations worldwide. Approximately 500 employees in the United States are covered by collective bargaining agreements. During 2006, no collective bargaining agreements were negotiated. One agreement is scheduled for negotiation during 2007. Also, the Corporation has government-mandated collective bargaining arrangements or union contracts with employees in other countries. The Corporation's operations have not been affected significantly by work stoppages and, in the opinion of management, employee relations are good. As more fully described under the caption "Restructuring and Integration Actions" in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Corporation is committed to continuous productivity improvement and continues to evaluate opportunities to reduce fixed costs, simplify or improve processes, and eliminate excess capacity. As a consequence, the Corporation may, from time to time, transfer production from one manufacturing facility to another, outsource certain production, or close certain manufacturing facilities. Such production transfers, outsourcing, and/or facility closures may result in a deterioration of employee relations at the impacted locations or elsewhere in the Corporation.

The Corporation's operations are subject to foreign, federal, state, and local environmental laws and regulations. Many foreign, federal, state, and local governments also have enacted laws and regulations that govern the labeling and packaging of products and limit the sale of products containing certain materials deemed to be environmentally sensitive. These laws and regulations not only limit the acceptable methods for the discharge of pollutants and the disposal of products and components that contain certain substances, but also require that products be designed in a manner to permit easy recycling or proper disposal of environmentally sensitive components such as nickel cadmium batteries. The Corporation seeks to comply fully with these laws and regulations. Although compliance involves continuing costs, the ongoing costs of compliance with existing environmental laws and regulations have not had, nor are they expected to have, a material adverse effect upon the Corporation's capital expenditures or financial position.

Pursuant to authority granted under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), the United States Environmental Protection Agency (EPA) has issued a National Priority List (NPL) of sites at which action is to be taken to mitigate the risk of release of hazardous substances into the environ-

ment. The Corporation is engaged in continuing activities with regard to various sites on the NPL and other sites covered under analogous state environmental laws. As of December 31, 2006, the Corporation had been identified as a potentially responsible party (PRP) in connection with approximately 25 sites being investigated by federal or state agencies under CERCLA or analogous state environmental laws. The Corporation also is engaged in site investigations and remedial activities to address environmental contamination from past operations at current and former manufacturing facilities in the United States and abroad.

To minimize the Corporation's potential liability with respect to these sites, management has undertaken, when appropriate, active participation in steering committees established at the sites and has agreed to remediation through consent orders with the appropriate government agencies. Due to uncertainty as to the Corporation's involvement in some of the sites, uncertainty over the remedial measures to be adopted, and the fact that imposition of joint and several liability with the right of contribution is possible under CERCLA and other laws and regulations, the liability of the Corporation with respect to any site at which remedial measures have not been completed cannot be established with certainty. On the basis of periodic reviews conducted with respect to these sites, however, the Corporation has established appropriate liability accruals. The Corporation's estimate of the costs associated with environmental exposures is accrued if, in management's judgment, the likelihood of a loss is probable and the amount of the loss can be reasonably estimated. As of December 31, 2006, the Corporation's aggregate probable exposure with respect to environmental liabilities, for which accruals have been established in the consolidated financial statements, was \$76.4 million. In the opinion of management, the amount accrued for probable exposure for aggregate environmental liabilities is adequate and, accordingly, the ultimate resolution of these matters is not expected to have a material adverse effect on the Corporation's consolidated financial statements. As of December 31, 2006, the Corporation had no known probable but inestimable exposures relating to environmental matters that are expected to have a material adverse effect on the Corporation. There can be no assurance, however, that unanticipated events will not require the Corporation to increase the amount it has accrued for any environmental matter or accrue for an environmental matter that has not been previously accrued because it was not considered probable. While it is possible that the increase or establishment of an accrual could have a material adverse effect on the financial results for any particular fiscal quarter or year, in the opinion of management there exists no known potential exposures that would have a material adverse effect on the financial condition or on the financial results of the Corporation beyond any such fiscal quarter or year.

(d) Financial Information About Geographic Areas

Reference is made to Note 18 of Notes to Consolidated Financial Statements, entitled "Business Segments and Geographic Information", included in Item 8 of Part II of this report.

(e) Available Information

The Corporation files annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (the Exchange Act). The public may read and copy any materials that the Corporation files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including the Corporation, that file electronically with the SEC. The public can obtain any documents that the Corporation files with the SEC at <http://www.sec.gov>.

The Corporation also makes available free of charge on or through its Internet website (<http://www.bdk.com>) the Corporation's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after the Corporation electronically files such material with, or furnishes it to, the SEC.

Black & Decker's Corporate Governance Policies and Procedures Statement is available free of charge on or through its Internet website (<http://www.bdk.com>) or in print by calling (800) 992-3042 or (410) 716-2914. The Statement contains charters of the standing committees of the Board of Directors, the Code of Ethics and Standards of Conduct, and the Code of Ethics for Senior Financial Officers.

In April 2006, the Corporation submitted to the New York Stock Exchange the CEO certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

(f) Executive Officers and Other Senior Officers of the Corporation

The current Executive Officers and Other Senior Officers of the Corporation, their ages, current offices or positions, and their business experience during the past five years are set forth below.

• **NOLAN D. ARCHIBALD – 63**

Chairman, President, and
Chief Executive Officer,
January 1990 – present.

• **BRUCE W. BROOKS – 42**

Vice President of the Corporation and President –
Construction Tools, Industrial Products Group,
Power Tools and Accessories,
May 2005 – present;

Vice President and General Manager –
Construction Tools, Industrial Products Group,
Power Tools and Accessories,
October 2004 – May 2005;

Vice President Marketing – DEWALT Professional
Products, Power Tools and Accessories Group,
July 2003 – October 2004;

Vice President Marketing –
Black & Decker Consumer Products,
Power Tools and Accessories Group,
July 2000 – July 2003.

• **JAMES T. CAUDILL – 39**

Group Vice President of the Corporation and
President – Hardware and Home Improvement,
July 2006 – present;

Vice President of the Corporation and President –
Hardware and Home Improvement,
May 2005 – July 2006;

Vice President and General Manager –
Accessories, Industrial Products Group,
Power Tools and Accessories Group,
October 2004 – May 2005;

Vice President – Accessories,
DEWALT Professional Products,
Power Tools and Accessories Group,
November 2001 – October 2004.

• **CHARLES E. FENTON – 58**

Senior Vice President and General Counsel,
December 1996 – present.

• **LES H. IRELAND – 42**

Vice President of the Corporation and
President – Europe/Middle East/Africa,
Power Tools and Accessories,
January 2005 – present;

Vice President of the Corporation and
Managing Director – Commercial Operations,
Europe, Black & Decker Consumer Group,
Power Tools and Accessories Group,
November 2001 – January 2005.

• **THOMAS D. KOOS – 43**

Group Vice President of the Corporation and
President – Consumer Products Group,
Power Tools and Accessories,
March 2004 – present;

Vice President of the Corporation and President –
Black & Decker Consumer Products,
Power Tools and Accessories Group,
January 2001 – March 2004.

• **MICHAEL D. MANGAN – 50**
Senior Vice President and Chief Financial Officer,
January 2000 – present.

• **PAUL F. MCBRIDE – 51**
Senior Vice President – Human Resources
and Corporate Initiatives,
March 2004 – present;

Executive Vice President of the Corporation
and President – Power Tools and
Accessories Group,
April 1999 – March 2004.

• **CHRISTINA M. MCMULLEN – 51**
Vice President and Controller,
April 2000 – present.

• **JAMES R. RASKIN – 46**
Vice President of the Corporation and
Vice President – Business Development,
July 2006 – present;

Vice President – Business Development,
May 2002 – July 2006;

Vice President – Marketing,
Consumer Products Group,
September 2001 – May 2002.

• **STEPHEN F. REEVES – 47**
Vice President of the Corporation and
Vice President – Global Finance,
Power Tools and Accessories,
March 2004 – present;

Vice President of the Corporation and
Vice President– Finance, Power Tools
and Accessories Group,
April 2000 – March 2004.

• **MARK M. ROTHLEITNER – 48**

Vice President – Investor Relations and Treasurer,
January 2000 – present.

• **ROBERT I. ROWAN – 46**

Vice President of the Corporation and President –
Power Tools and Accessories, Consumer
Products Group, Power Tools and Accessories,
February 2006 – present;

Vice President and General Manager,
Consumer Power Tools and Accessories,
Power Tools and Accessories,
July 2003 – February 2006;

Vice President – Outdoor Products,
Consumer Products Group, Power Tools
and Accessories Group,
September 2001 – July 2003.

• **EDWARD J. SCANLON – 52**

Vice President of the Corporation and
President – Commercial Operations, North and
South America, Power Tools and Accessories,
March 2004 – present;

Vice President of the Corporation and
President – Commercial Operations,
North America, Power Tools and
Accessories Group,
May 1999 – March 2004.

• **JOHN W. SCHIECH – 48**

Group Vice President of the Corporation
and President – Industrial Products Group,
Power Tools and Accessories,
March 2004 – present;

Vice President of the Corporation and President –
DEWALT Professional Products, Power Tools
and Accessories Group,
January 2001 – March 2004.

• **NATALIE A. SHIELDS – 50**

Vice President and Corporate Secretary,
April 2006 – present;

International Tax and Trade Counsel,
June 1993 – April 2006.

• **BEN S. SIHOTA – 48**

Vice President of the Corporation and President –
Asia Pacific, Power Tools and Accessories,
February 2006 – present;

President – Asia, Power Tools and Accessories,
September 2000 – February 2006.

• **MICHAEL A. TYLL – 50**

Group Vice President of the Corporation and
President – Fastening and Assembly Systems,
April 2006 – present;

President – Automotive Division,
Fastening and Assembly Systems,
January 2001 – April 2006.

(g) Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a safe harbor for forward-looking statements made by or on behalf of the Corporation. The Corporation and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Corporation's filings with the Securities and Exchange Commission and in its reports to stockholders. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "anticipate," "will," and similar expressions identify statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. All statements addressing operating performance, events, or developments that the Corporation expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well

as statements expressing optimism or pessimism about future operating results, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. The Corporation undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

By their nature, all forward-looking statements involve risks and uncertainties, including without limitations the risks described under the caption "Risk Factors" that could materially harm the Corporation's business, financial condition, and results of operations. You are cautioned not to place undue reliance on the Corporation's forward-looking statements.

ITEM 1A. RISK FACTORS

Many of the factors that affect our business and operations involve risk and uncertainty. The factors described below are some of the risks that could materially harm our business, financial condition, and results of operations.

- **Our business depends on the strength of the economies in various parts of the world, particularly in the United States and Europe.** We conduct business in various parts of the world, primarily in the United States and Europe and, to a lesser extent, in Mexico, Central America, the Caribbean, South America, Canada, Asia and Australia. As a result of this worldwide exposure, our net revenue and profitability could be harmed as a result of economic conditions in our major markets, including, but not limited to, recession, inflation and deflation, general weakness in retail, automotive and construction markets, and changes in consumer purchasing power.
- **Changes in customer preferences, the inability to maintain mutually beneficial relationships with large customers, and the inability to penetrate new channels of distribution could adversely affect our business.** We have a number of major customers, including two large customers that, in the aggregate, constituted approximately 33% of our consolidated sales in 2006. The loss of either of these large customers, a material negative change in our relationship with these large customers or other major customers, or changes in consumer preferences or loyalties could have an adverse effect on our business. Our major customers are volume purchasers, a few of which are much larger than us and have strong bargaining power with suppliers. This limits our ability to recover cost increases through higher selling prices. Changes in purchasing patterns by major customers could negatively impact manufacturing volumes and inventory levels. Further, our inability to continue to penetrate new channels of distribution may have a negative impact on our future results.
- **The inability to obtain raw materials, component parts, and/or finished goods in a timely and cost-effective manner from suppliers would adversely affect our ability to manufacture and market our products.** We purchase raw materials and component parts from suppliers to be used in the manufacturing of our products. In addition, we purchase certain finished goods from suppliers. In a limited number of circumstances, the magnitude of our purchases of certain items is of such significance that a change in our established supply relationships may cause disruption in the marketplace, a temporary price imbalance, or both. Changes in our relationships with suppliers or increases in the costs of purchased raw materials, component parts or finished goods could result in manufacturing interruptions, delays, inefficiencies or our inability to market products. In addition, our profit margins would decrease if prices of purchased raw materials, component parts, or finished goods increase and we are unable to pass on those increases to our customers.
- **We face significant global competition.** The markets in which we sell products are highly competitive on the basis of price, quality, and after-sale service. A number of competing domestic and foreign companies are strong, well-established manufacturers that compete globally with us. Some of our major customers sell their own "private label" brands that compete directly with our products. Price reductions taken by us in response to customer and competitive pressures, as well as price reductions and promotional actions taken to drive demand that may not result in anticipated sales levels, could also negatively impact our business. Competition has been intense in recent years and is expected to continue. If we are unable to maintain a competitive advantage, loss of market share, revenue, or profitability may result.
- **Low demand for new products and the inability to develop and introduce new products at favorable margins could adversely impact our performance and prospects for future growth.** Our competitive advantage is due in part to our ability to develop and introduce new products in a timely manner at favorable margins. The uncertainties associated with developing and introducing new products, such as market demand and costs of development and production, may impede the successful development and introduction of new products on a consistent basis. Market acceptance of the new products introduced in 2006 and scheduled for introduction in 2007 may not meet sales expectations due to various factors, such as our failure to accurately predict market demand and evolving industry standards, to resolve technical challenges in a timely and cost-effective manner, and to achieve manufacturing efficiencies. Our investments in productive capacity and commitments to fund advertising and product promotions in connection with these new products could be excessive if those expectations are not met.
- **Price increases could impact the demand for our products from customers and end-users.** We have recently increased the prices of our products for our U.S. power tools and accessories business and hardware and home improvement business. An adverse reaction by our customers or end-users to these price increases could negatively impact our anticipated sales, profitability, manufacturing volumes, and/or inventory levels.

- **The inability to generate sufficient cash flows to support operations and other activities could prevent future growth and success.** Our inability to generate sufficient cash flows to support capital expansion, business acquisition plans, share repurchases and general operating activities could negatively affect our operations and prevent our expansion into existing and new markets. Our ability to generate cash flows is dependent in part upon obtaining necessary financing at favorable interest rates. Interest rate fluctuations and other capital market conditions may prevent us from doing so.
- **Our success depends on our ability to improve productivity and streamline operations to control or reduce costs.** We are committed to continuous productivity improvement and continue to evaluate opportunities to reduce fixed costs, simplify or improve processes, and eliminate excess capacity. We have also undertaken restructuring and integration actions as described in Note 20 of Notes to Consolidated Financial Statements and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. The ultimate savings realized from restructuring and integration actions may be mitigated by many factors, including economic weakness, competitive pressures, and decisions to increase costs in areas such as promotion or research and development above levels that were otherwise assumed. Our failure to achieve projected levels of efficiencies and cost reduction measures and to avoid delays in or unanticipated inefficiencies resulting from manufacturing and administrative reorganization actions in progress or contemplated would adversely affect our results of operations.
- **The inability to successfully integrate the operations of acquired businesses or to identify new acquisition opportunities could negatively impact our prospect for future growth and profitability.** We expend significant resources on identifying opportunities to acquire new lines of business and companies that could contribute to our success and expansion into existing and new markets. Our inability to successfully identify acquisition opportunities, integrate the operations of acquired businesses, or realize the anticipated cost savings, synergies and other benefits related to the acquisition of those businesses could have a material adverse effect on our business, financial condition and future growth. Acquisitions may also have a material adverse effect on our operating results due to large write-offs, contingent liabilities, substantial depreciation, or other adverse tax or audit consequences.
- **Failures of our infrastructure could have a material adverse effect on our business.** We are heavily dependent on our infrastructure. Significant problems with our infrastructure, such as manufacturing failures, telephone or information technology (IT) system failure, computer viruses or other third-party tampering with IT systems, could halt or delay manufacturing and hinder our ability to ship in a timely manner or otherwise routinely conduct business. Any of these events could result in the loss of customers, a decrease in revenue, or the incurrence of significant costs to eliminate the problem or failure.
- **Our products could be subject to product liability claims and litigation.** We manufacture products that create exposure to product liability claims and litigation. If our products are not properly manufactured or designed, personal injuries or property damage could result, which could subject us to claims for damages. The costs associated with defending product liability claims and payment of damages could be substantial. Our reputation could also be adversely affected by such claims, whether or not successful.
- **Our products could be recalled.** The Consumer Product Safety Commission or other applicable regulatory bodies may require the recall, repair or replacement of our products if those products are found not to be in compliance with applicable standards or regulations. A recall could increase costs and adversely impact our reputation.
- **We may have additional tax liabilities.** We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final outcome of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. Based on the status of a given tax audit or related litigation, a material effect on our income tax provision or net income may result in the period or periods from initial recognition in our reported financial results to the final closure of that tax audit or settlement of related litigation when the ultimate tax and related cash flow is known with certainty.
- **We are subject to current environmental and other laws and regulations.** We are subject to environmental laws in each jurisdiction in which we conduct business. Some of our products incorporate substances that are regulated in some jurisdictions in which we conduct manufacturing operations. We could be subject to liability if we do not comply with these regulations. In addition, we are currently and may, in the future, be held responsible for remedial investigations and clean-up costs resulting from the discharge of hazardous substances into the environment, including

sites that have never been owned or operated by us but at which we have been identified as a potentially responsible party under federal and state environmental laws and regulations. Changes in environmental and other laws and regulations in both domestic and foreign jurisdictions could adversely affect our operations due to increased costs of compliance and potential liability for non-compliance.

• **If our goodwill or indefinite-lived intangible assets become impaired, we may be required to record a significant charge to earnings.** Under United States generally accepted accounting principles, goodwill and indefinite-lived intangible assets are not amortized but are reviewed for impairment on an annual basis or more frequently whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or indefinite-lived intangible assets is determined, resulting in an impact on our results of operations.

• **Changes in accounting may affect our reported earnings.** For many aspects of our business, United States generally accepted accounting principles, including pronouncements, implementation guidelines, and interpretations, are highly complex and require subjective judgments. Changes in these accounting principles, including their interpretation and application, could significantly change our reported earnings, adding significant volatility to our reported results without a comparable underlying change in our cash flows.

• **We are exposed to adverse changes in currency exchange rates, raw material commodity prices or interest rates, both in absolute terms and relative to competitors' risk profiles.** We have a number of manufacturing sites throughout the world and sell our products in more than 100 countries. As a result, we are exposed to movements in the exchange rates of various currencies against the United States dollar and against the currencies of countries in which we have manufacturing facilities. We believe our most significant foreign currency exposures are the euro, pound sterling and Chinese renminbi. A decrease in the value of the euro and pound sterling relative to the U.S. dollar could adversely affect our results of operations. An increase in the value of the Chinese renminbi relative to the U.S. dollar could adversely affect our results of operations. We utilize materials in the manufacturing of our products that include certain components and raw materials that are subject to commodity price volatility. We believe our most significant commodity-related exposures are to steel, resins, copper, aluminum, and zinc. An increase in the market prices of these items could adversely affect our results of operations. We have outstanding variable-rate and fixed-rate borrowings. To meet our cash requirements, we may incur additional borrowings in the future under our existing or future borrowing facilities. An increase in interest rates could adversely affect our results of operations.

• **We operate a global business that exposes us to additional risks.** Our sales outside of the United States accounted for approximately 36% of our consolidated net revenue in 2006. We continue to expand into foreign markets. The future growth and profitability of our foreign operations are subject to a variety of risks and uncertainties, such as tariffs, nationalization, exchange controls, interest rate fluctuations, civil unrest, governmental changes, limitations on foreign investment in local business and other political, economic and regulatory risks inherent in conducting business internationally. Over the past several years, such factors have become increasingly important as a result of our higher percentage of manufacturing in China, Mexico and the Czech Republic and purchases of products and components from foreign countries.

• **Catastrophic events may disrupt our business.** Unforeseen events, including war, terrorism and other international conflicts, public health issues, and natural disasters such as earthquakes, hurricanes or other adverse weather and climate conditions, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of our suppliers or customers, or result in political or economic instability. These events could reduce demand for our products and make it difficult or impossible for us to manufacture our products, deliver products to customers, or to receive products from suppliers.

The foregoing list is not exhaustive. There can be no assurance that we have correctly identified and appropriately assessed all factors affecting our business or that the publicly available and other information with respect to these matters is complete and correct. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely impact our business. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on our business, financial condition, and results of operations.

ITEM 2. PROPERTIES

The Corporation operates 41 manufacturing facilities around the world, including 25 located outside of the United States in 9 foreign countries. The major properties associated with each business segment are listed in "Narrative Description of the Business" in Item 1(c) of Part I of this report.

The following are the Corporation's major leased facilities:

In the United States: Lake Forest, Mira Loma, and Rialto, California; Charlotte, North Carolina; Jackson, Tennessee; Tampa, Florida; Chesterfield, Michigan; and Towson, Maryland.

Outside of the United States: Tongeren and Aarschot, Belgium; Reynosa and Mexicali, Mexico; Brockville, Canada; Usti nad Labem, Czech Republic; and Suzhou, China.

Additional property both owned and leased by the Corporation in Towson, Maryland, is used for administrative offices. Subsidiaries of the Corporation lease certain locations primarily for smaller manufacturing and/or assembly operations, service operations, sales and administrative offices, and for warehousing and distribution centers. The Corporation also owns a manufacturing plant located on leased land in Suzhou, China.

As more fully described in Item 7 of Part II of this report under the caption "Restructuring and Integration Actions", the Corporation is committed to continuous productivity improvement and continues to evaluate opportunities to reduce fixed costs, simplify or improve processes, and eliminate excess capacity. The Corporation will continue to evaluate its worldwide manufacturing cost structure to identify opportunities to improve capacity utilization and lower product costs and will take appropriate action as deemed necessary.

Management believes that its owned and leased facilities are suitable and adequate to meet the Corporation's anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

The Corporation is involved in various lawsuits in the ordinary course of business. These lawsuits primarily involve claims for damages arising out of the use of the Corporation's products and allegations of patent and trademark infringement. The Corporation also is involved in litigation and administrative proceedings involving employment matters and commercial disputes. Some of these lawsuits include claims for punitive as well as compensatory damages. The Corporation, using current product sales data and historical trends, actuarially calculates the estimate of its exposure for product liability. The Corporation is insured for product liability claims for amounts in excess of established deductibles and accrues for the estimated liability as described above up to the limits of the deductibles. All other claims and lawsuits are handled on a case-by-case basis.

As previously noted under Item 1(c) of Part I of this report, the Corporation also is 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 the Corporation but at which the Corporation has been identified as a PRP. Others involve current and former manufacturing facilities.

The EPA and the Santa Ana Regional Water Quality Board (the Water Quality Board) have each initiated administrative proceedings against the Corporation and certain of the Corporation's current or former affiliates alleging that the Corporation 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 cities of Colton and Rialto, as well as the West Valley Water District and the Fontana Water Company, a private company, also have initiated lawsuits against the Corporation and certain of the Corporation's former or current affiliates in the Federal District Court for California, Central District alleging similar claims that the Corporation is liable under 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. All defendants have crossclaims against one another in the federal litigation. 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 that supplies drinking water to the referenced three municipal water suppliers and one private water company in California and that the Corporation and certain of the Corporation's current or former affiliates are liable as a "successor" of WCLC. Judgment has been entered in favor of all defendants, including the Corporation and certain of the Corporation's current and former affiliates, in the federal lawsuit brought by the City of Colton as to Colton's federal claims. The remaining state claims and the crossclaims in that lawsuit have been dismissed by the court on jurisdictional grounds. The City of Colton and several co-defendants have appealed the dismissal of these claims. The City of Colton also has re-filed its claims in California state court and filed a new federal action arising out of CERCLA, the Resource Conservation and Recovery Act, and state law. Certain defendants have crossclaimed against other defendants in the new federal action and have asserted claims against The United States Department of Defense, Environmental Protection Agency and the City of Rialto. The Corporation believes that neither the

facts nor the law support an allegation that the Corporation is responsible for the contamination and is vigorously contesting these claims.

The Corporation's estimate of costs associated with product liability claims, environmental matters, and other legal proceedings is accrued if, in management's judgment, the likelihood of a loss is probable and the amount of the loss can be reasonably estimated. These accrued liabilities are not discounted.

In the opinion of management, amounts accrued for exposures relating to product liability claims, environmental matters, and other legal proceedings are adequate and, accordingly, the ultimate resolution of these matters is not expected to have a material adverse effect on the Corporation's consolidated financial statements. As of December 31, 2006, the Corporation had no known probable but inestimable exposures relating to product liability claims, environmental matters, or other legal proceedings that are expected to have a material adverse effect on the Corporation. There can be no assurance, however, that unanticipated events will not require the Corporation to increase the amount it has accrued for any matter or accrue for a matter that has not been previously accrued because it was not considered probable. While it is possible that the increase or establishment of an accrual could have a material adverse effect on the financial results for any particular fiscal quarter or year, in the opinion of management there exists no known potential exposures that would have a material adverse effect on the financial condition or on the financial results of the Corporation beyond any such fiscal quarter or year.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information

The Corporation's Common Stock is listed on the New York Stock Exchange.

The following table sets forth, for the periods indicated, the high and low sale prices of the Common Stock as reported in the consolidated reporting system for the New York Stock Exchange Composite Transactions:

QUARTER	2006	2005
January to March	\$90.500 to \$80.950	\$89.750 to \$77.180
April to June	\$94.900 to \$79.350	\$91.450 to \$77.850
July to September	\$84.850 to \$66.040	\$93.710 to \$80.030
October to December	\$91.140 to \$76.850	\$89.000 to \$75.700

(b) Holders of the Corporation's Capital Stock

As of January 26, 2007, there were 11,369 holders of record of the Corporation's Common Stock.

(c) Dividends

The Corporation has paid consecutive quarterly dividends on its Common Stock since 1937. Future dividends will depend upon the Corporation's earnings, financial condition, and other factors. The Credit Facility, as more fully described in Note 8 of Notes to Consolidated Financial Statements included in Item 8 of Part II of this report, does not restrict the Corporation's ability to pay regular dividends in the ordinary course of business on the Common Stock.

Quarterly dividends per common share for the most recent two years are as follows:

QUARTER	2006	2005
January to March	\$.38	\$.28
April to June	.38	.28
July to September	.38	.28
October to December	.38	.28
	\$1.52	\$1.12

Common Stock:

150,000,000 shares authorized, \$.50 par value, 66,734,843 and 77,357,370 outstanding as of December 31, 2006 and 2005, respectively.

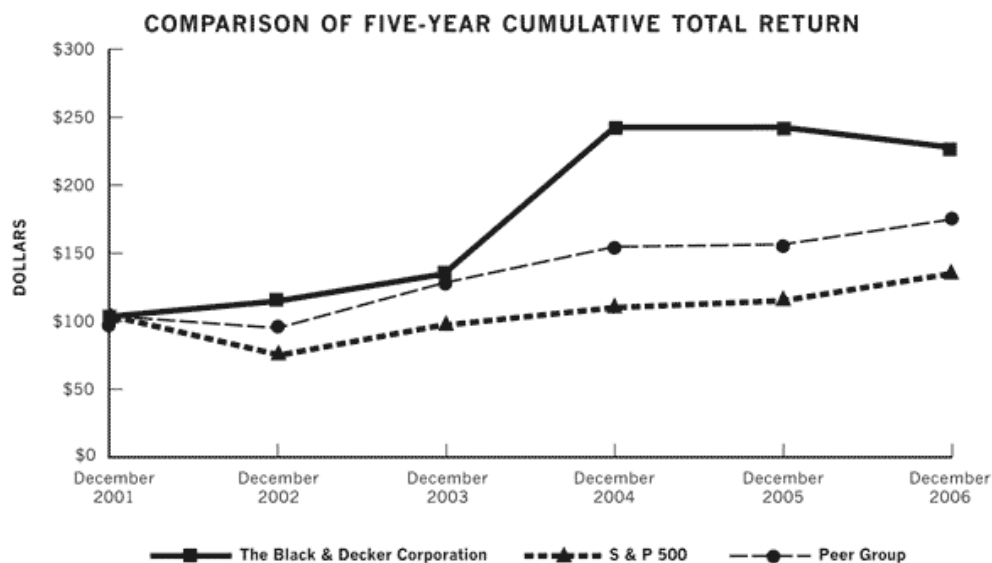
Preferred Stock:

5,000,000 shares authorized, without par value, no shares outstanding as of December 31, 2006 and 2005.

(d) Annual Meeting of Stockholders

The 2007 Annual Meeting of Stockholders of the Corporation is scheduled to be held on April 19, 2007, at 9:00 a.m. at the Sheraton Baltimore North Hotel, 903 Dulaney Valley Road, Towson, Maryland 21204.

(e) Performance Graph



- (1) Assumes \$100 invested at the close of business on December 31, 2001 in Black & Decker common stock, Standard & Poor's (S&P) 500 Index, and the Peer Group.
- (2) The cumulative total return assumes reinvestment of dividends.
- (3) The Peer Group consists of the companies in the following indices within the Standard & Poor's Super Composite 1,500: Household Appliances, Housewares & Specialties, Industrial Machinery, and Building Products. A list of the companies in the Peer Group will be furnished upon request addressed to the Corporate Secretary at 701 East Joppa Road, Towson, Maryland 21286.
- (4) Total return is weighted according to market capitalization of each company at the beginning of each year.

(f) Issuer Purchases of Equity Securities

PERIOD (a)	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS(b)	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS
October 2, 2006 through October 29, 2006	-	-	-	4,940,095
October 30, 2006 through November 26, 2006	-	-	-	4,940,095
November 27, 2006 through December 31, 2006	1,625,000	\$ 78.14	1,625,000	3,315,095
Total	1,625,000	\$ 78.14	1,625,000	3,315,095

- (a) The periods represent the Corporation's monthly fiscal calendar.
- (b) All purchases by the Corporation of its common stock were made under the repurchase plan publicly announced on July 20, 2006, when the Corporation announced it had authorization from its Board of Directors to repurchase 8,000,000 shares. In addition, the maximum number of shares that may yet be purchased under the plans noted above, includes 3,000,000 shares authorized by the Board of Directors on October 26, 2006. On February 8, 2007, the Corporation announced it had authorization from its Board of Directors to repurchase an additional 3,000,000 shares. There is no expiration date or current intent to terminate the repurchase plans.

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR SUMMARY (a)

(MILLIONS OF DOLLARS EXCEPT PER SHARE DATA)	2006	2005	2004	2003 (c)	2002 (c)
Sales	\$6,447.3	\$6,523.7	\$5,398.4	\$4,482.7	\$4,291.8
Net earnings from continuing operations	486.1	532.2	430.7	270.5	210.0
(Loss) earnings from discontinued operations (b)	—	(.1)	14.9	5.8	1.2
Net earnings	486.1	532.1	445.6	276.3	211.2
Basic earnings per share:					
Continuing operations	6.74	6.72	5.40	3.47	2.62
Discontinued operations	—	—	.19	.08	.01
Net earnings per common share - basic	6.74	6.72	5.59	3.55	2.63
Diluted earnings per share:					
Continuing operations	6.55	6.54	5.31	3.47	2.61
Discontinued operations	—	—	.18	.08	.01
Net earnings per common share - assuming dilution	6.55	6.54	5.49	3.55	2.62
Total assets	5,247.7	5,842.4	5,555.0	4,262.2	4,162.6
Long-term debt	1,170.3	1,030.3	1,200.6	915.6	927.6
Redeemable preferred stock of subsidiary (d)	—	—	192.2	202.6	208.4
Cash dividends per common share	1.52	1.12	.84	.57	.48

- (a) As more fully disclosed in Note 1 of Notes to Consolidated Financial Statements, the Corporation adopted SFAS No. 123R effective January 1, 2006 using the modified retrospective method of adoption whereby the Corporation restated all prior periods presented based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures. The amounts in this five-year summary reflect the restated amounts upon adoption of SFAS No. 123R.
- (b) (Loss) earnings from discontinued operations represent the earnings, net of applicable income taxes, of the Corporation's discontinued European security hardware business. Loss from discontinued operations for the year ended December 31, 2005, includes a loss on sale of discontinued operations of \$.1 million. Earnings from discontinued operations for the year ended December 31, 2004, include a gain on sale of discontinued operations of \$12.7 million. That gain was net of a \$24.4 million goodwill impairment charge associated with the DOM security hardware business. The earnings of the discontinued operations do not reflect any expense for interest allocated by or management fees charged by the Corporation. For additional information about the discontinued European security hardware business, see Note 3 of Notes to Consolidated Financial Statements included in Item 8 of Part II of this report.
- (c) Earnings from continuing operations for 2003 and 2002 include a restructuring charge of \$20.6 million and \$46.6 million before taxes, respectively (\$14.9 million and \$29.2 million after taxes, respectively). Those 2003 and 2002 pre-tax charges were net of reversals of \$13.2 million and \$11.0 million, respectively, representing reversals of previously provided restructuring reserves as well as the excess proceeds received on the sale of long-lived assets, written down as part of restructuring actions, over their adjusted carrying values. In addition, earnings from continuing operations for 2003 include a restructuring charge of \$11.0 million before taxes (\$7.2 million after taxes) associated with the closure of a manufacturing facility in its Hardware and Home Improvement segment as a result of the acquisition of the Baldwin and Weiser businesses.
- (d) As of December 31, 2004, redeemable preferred stock of subsidiary was included in other current liabilities. As of December 31, 2002 and 2003, redeemable preferred stock of subsidiary was included in other long-term liabilities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Corporation is a global manufacturer and marketer of power tools and accessories, hardware and home improvement products, and technology-based fastening systems. As more fully described in Note 18 of Notes to Consolidated Financial Statements, the Corporation operates in three reportable business segments – Power Tools and Accessories, Hardware and Home Improvement, and Fastening and Assembly Systems – with these business segments comprising approximately 74%, 16%, and 10%, respectively, of the Corporation's sales in 2006. As more fully disclosed in Note 2 of Notes to Consolidated Financial Statements, on March 1, 2006, the Corporation acquired Vector. Vector, a designer and marketer of consumer portable power products, is included in the Power Tools and Accessories segment.

The Corporation markets its products and services in over 100 countries. During 2006, approximately 64%, 21%, and 15% of its sales were made to customers in the United States, in Europe (including the United Kingdom and Middle East), and in other geographic regions, respectively. The Power Tools and Accessories and Hardware and Home Improvement segments are subject to general economic conditions in the countries in which they operate as well as the strength of the retail economies. The Fastening and Assembly Systems segment is also subject to general economic conditions in the countries in which it operates as well as to automotive and industrial demand.

An overview of certain aspects of the Corporation's performance during the year ended December 31, 2006, follows:

- Sales for 2006 were \$6,447.3 million, which represented a 1% decline from 2005 sales of \$6,523.7 million.
- Excluding incremental sales of the acquired Vector business, sales for 2006 declined by 3% from the 2005 level. That decline was driven by lower sales in the United States due, in part, to weak demand in the face of slowing residential construction and actions taken by certain major customers late in 2006 to reduce inventory levels. The Corporation expects that continued weakness in key sectors of the U.S. economy in 2007, including significantly lower housing starts, will result in a sales decrease in the first six months of 2007, as compared to the corresponding 2006 period.
- Operating income as a percentage of sales for 2006 decreased by approximately 70 basis points from the 2005 level to 11.5%. A principal factor in that decline was rising commodity costs, which increased cost of goods sold in 2006 by approximately \$95 million over the 2005 level and are expected to increase cost of goods sold by approximately \$120 million in 2007 over the 2006 level.
- Interest expense (net of interest income) rose by \$28.4 million in 2006 over the 2005 level, primarily as a result of higher prevailing U.S. interest rates, including the impact on the Corporation's foreign currency hedging activities, and higher borrowing levels.
- Net earnings from continuing operations were \$486.1 million, or \$6.55 per diluted share, for the year ended December 31, 2006, as compared to \$532.2 million, or \$6.54 per diluted share, in 2005. Net earnings from continuing operations for the year ended December 31, 2005, included two unusual items: (i) \$55.0 million of pre-tax income (\$35.8 million after tax) associated with a favorable settlement of environmental and product liability coverage litigation with an insurer; and (ii) \$51.2 million of incremental tax expense associated with the repatriation of foreign earnings under the American Jobs Creation Act of 2004.
- Diluted earnings per share of \$6.55 for the year ended December 31, 2006, benefited from lower weighted-average shares outstanding, principally as a result of share repurchases. During 2006, the Corporation repurchased approximately 11.8 million shares of its common stock at a cost of \$896.0 million. Shares used in computing annual diluted earnings per share declined by 9%, from 81.4 million for 2005 to 74.2 million for 2006.
- The acquisition of Vector on March 1, 2006, not only broadened the Corporation's product offerings in its Power Tools and Accessories segment but also contributed 2% in incremental sales growth to the year ended December 31, 2006.

The preceding information is an overview of certain aspects of the Corporation's performance during the year ended December 31, 2006, and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in its entirety.

In the discussion and analysis of financial condition and results of operations that follows, the Corporation generally attempts to list contributing factors in order of significance to the point being addressed. Also, the Corporation has attempted to differentiate between sales of its "existing" businesses and sales of acquired businesses. That differentiation includes sales of businesses where year-to-year comparability exists in the category of "existing" or "legacy"

businesses. For example, in 2006, the sales of Vector are included in sales of acquired businesses.

Sales

The following chart provides an analysis of the consolidated changes in sales for the years ended December 31, 2006, 2005, and 2004.

(DOLLARS IN MILLIONS)	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
Total sales	\$ 6,447.3	\$ 6,523.7	\$ 5,398.4
Unit volume - existing (a)	(2)%	7 %	10 %
Unit volume - acquired (b)	2 %	14 %	9 %
Price	(1)%	(1)%	(2)%
Currency	- %	1 %	3 %
Change in total sales	(1)%	21 %	20 %

(a) Represents change in unit volume for businesses where year-to-year comparability exists; however, includes unit volume in 2005 of the European FLEX power tools business sold in November 2005.

(b) Represents change in unit volume for businesses that were acquired and were not included in prior period results.

Total consolidated sales for the year ended December 31, 2006, were \$6,447.3 million, which represented a 1% decrease from 2005 sales of \$6,523.7 million. Excluding the incremental effects of the Vector acquisition, unit volume declined by 2% from the 2005 level. That 2% decline was driven by lower sales in the United States due, in part, to weak demand in the face of slowing residential construction and actions taken by certain major customers late in 2006 to reduce inventory levels. Vector, a consumer portable power business acquired on March 1, 2006, contributed 2% to 2006 consolidated sales. Pricing actions had a 1% negative impact on sales in 2006, as compared to 2005. The effects of foreign currency did not have a material effect on sales in 2006, as compared to 2005.

Total consolidated sales for the year ended December 31, 2005, were \$6,523.7 million, which represented a 21% increase over 2004 sales of \$5,398.4 million. Excluding the incremental effects of the MasterFix business for the first three months of 2005 and of the Porter-Cable and Delta Tools Group for the first nine months of 2005, total unit volume increased by 7% during the year ended December 31, 2005. That 7% increase was primarily driven by growth in the Corporation's industrial power tools and plumbing products businesses in the United States. Unit volume of acquired businesses contributed 14% to the sales growth for 2005 over the 2004 levels. Pricing actions had a 1% negative effect on sales for 2005, as compared to 2004. The effects of a weaker U.S. dollar as compared to other currencies, particularly the Canadian dollar, Brazilian real, and euro, caused the Corporation's consolidated sales for 2005 to increase by 1% over the 2004 levels.

Earnings

The Corporation reported consolidated operating income of \$740.4 million on sales of \$6,447.3 million in 2006, as compared to operating income of \$794.9 million on sales of \$6,523.7 million in 2005 and to operating income of \$613.2 million on sales of \$5,398.4 million in 2004.

Consolidated gross margin as a percentage of sales for 2006 was 34.8%, as compared to 35.5% for 2005. That decrease in gross margin was primarily a result of significant commodity inflation, coupled with the negative effects both of pricing actions and of lower sales and production volumes over which to leverage fixed costs, which offset the positive effects that resulted from restructuring and productivity initiatives as well as favorable product mix.

Consolidated gross margin as a percentage of sales for 2005 was 35.5%, as compared to 36.4% for 2004. The Corporation estimates that the Porter-Cable and Delta Tools Group acquisition had an approximate 150 basis point negative impact on consolidated gross margin as a percentage of sales for the year ended December 31, 2005. In addition to favorable product mix, the results of restructuring and other productivity initiatives, the leverage of fixed costs over a higher sales base, and foreign currency effects favorably impacted gross margin as a percentage of sales in the Corporation's legacy businesses. These positive factors were partially offset by increased raw material costs, the negative effects of pricing actions, higher pension expense, and transition costs associated with integration of lockset operations in the Hardware and Home Improvement segment.

Consolidated selling, general, and administrative expenses as a percentage of sales were 23.3% in both 2006 and 2005 and 25.1% in 2004. Consolidated selling, general, and administrative expenses in 2006 decreased by \$21.1 million from the 2005 level. That decrease resulted from declines in certain sales-related expenses due, in part, to lower sales volume as well as from declines in certain employee-related expenses, including performance-based incentive compensation, which offset incremental expenses of the acquired Vector business and the unfavorable effect of foreign currency translation.

Consolidated selling, general, and administrative expenses in 2005 increased by \$169.9 million over the 2004 level. The effects of acquired businesses and foreign currency translation accounted for approximately two-thirds of that increase, with the remainder principally resulting from

additional sales-related expenses associated with the higher level of sales experienced during 2005. The reduction in selling, general, and administrative expenses as a percentage of sales during 2005 as compared to the 2004 level was principally due to the impact of the Porter-Cable and Delta Tools Group acquisition – due to the lower expenses of that business – and the leverage of expenses over a higher sales base in the Corporation’s legacy businesses.

Consolidated net interest expense (interest expense less interest income) was \$73.8 million in 2006, as compared to \$45.4 million in 2005 and \$22.1 million in 2004. The increase in net interest expense in 2006, as compared to 2005, was primarily the result of higher prevailing U.S. interest rates, including the impact on the Corporation’s foreign currency hedging activities, and higher borrowing levels. The higher net interest expense in 2005, as compared to 2004, was primarily the result of both higher borrowing levels and higher interest rates, including the effects of higher prevailing U.S. interest rates on the Corporation’s foreign currency hedging activities.

Other expense (income) was \$2.2 million in 2006, as compared to \$(51.6) million in 2005 and \$2.8 million in 2004. As more fully described in Note 21 of Notes to Consolidated Financial Statements, the Corporation received a payment of \$55.0 million in 2005 relating to the settlement of environmental and product liability coverage litigation with an insurer.

Consolidated income tax expense of \$178.3 million, \$268.9 million, and \$157.6 million was recognized on the Corporation’s earnings from continuing operations before income taxes of \$664.4 million, \$801.1 million, and \$588.3 million, for 2006, 2005, and 2004, respectively. The Corporation’s effective tax rate was 26.8% for 2006, as compared to an effective tax rate of 33.6% for 2005 and 26.8% for 2004. While the effective tax rate in 2006 approximates that in 2004, the 2005 effective tax rate reflects incremental tax expense of \$51.2 million associated with the repatriation of foreign earnings under the American Jobs Creation Act of 2004 and the tax effects – \$19.2 million – of the \$55.0 million of income recognized upon settlement of environmental and product liability coverage litigation with an insurer during 2005. Absent those items, the 2005 effective tax rate would also approximate the effective tax rates in 2006 and 2004. A further analysis of taxes on earnings is included in Note 12 of Notes to Consolidated Financial Statements.

The Corporation reported net earnings from continuing operations of \$486.1 million, or \$6.55 per share on a diluted basis, for the year ended December 31, 2006, as compared to net earnings from continuing operations of \$532.2 million, or \$6.54 per share on a diluted basis, for the year ended December 31, 2005, and \$430.7 million, or \$5.31 per share on a diluted basis, for the year ended December 31, 2004.

The Corporation reported a net loss of \$.1 million from discontinued operations in 2005, as compared to net earnings from discontinued operations of \$14.9 million in 2004. As more fully described in Note 3 of Notes to Consolidated Financial Statements, net earnings from discontinued operations for the years ended December 31, 2005 and 2004, reflected a \$.1 million loss and a \$12.7 million gain, respectively, on the sales of discontinued operations. The \$.1 million loss recognized in 2005 related to the sale of the discontinued DOM business. The \$12.7 million gain recognized during 2004 consisted of a \$37.1 million gain on the sale of two discontinued businesses (NEMEF and Corbin) in early 2004, partially offset by a \$24.4 million goodwill impairment charge associated with the discontinued DOM business. The Corporation reported net earnings of \$486.1 million, \$532.1 million, and \$445.6 million, or \$6.55, \$6.54, and \$5.49 per share on a diluted basis, for the years ended December 31, 2006, 2005, and 2004, respectively.

In addition to the matters previously noted, diluted earnings per share for 2006 benefited from lower weighted-average shares outstanding. Shares used in computing diluted earnings per share for 2005 of 81.4 million, declined by 9% to 74.2 million shares for 2006, principally as a result of share repurchases. Shares used in computing diluted earnings per share for 2004 of 81.1 million approximated the 2005 level.

Business Segments

As more fully described in Note 18 of Notes to Consolidated Financial Statements, the Corporation operates in three reportable business segments: Power Tools and Accessories, Hardware and Home Improvement, and Fastening and Assembly Systems.

POWER TOOLS AND ACCESSORIES

Segment sales and profit for the Power Tools and Accessories segment, determined on the basis described in Note 18 of Notes to Consolidated Financial Statements, were as follows (in millions of dollars):

YEAR ENDED DECEMBER 31,	2006	2005	2004
Sales to unaffiliated customers	\$4,735.6	\$4,821.4	\$3,840.8
Segment profit	570.0	634.9	488.4

Sales to unaffiliated customers in the Power Tools and Accessories segment during 2006 decreased 2% from the 2005 level. Sales of the acquired Vector business resulted in a 2% increase in sales during 2006. That increase was offset by a four-percentage-point decline in sales of the legacy Power Tools and Accessories businesses that was primarily attributable to lower sales in the United States, partially offset by higher sales outside of the United States.

Sales in North America decreased at a mid-single-digit rate during 2006 as compared to the prior year's level. Sales of the Corporation's industrial power tools and accessories business in the United States decreased at a mid-single-digit rate primarily as a result of lower sales of equipment (due largely to lower sales of generators and compressors), construction tools, and woodworking tools. The U.S. industrial power tools and accessories business was adversely impacted by weak demand in the face of slowing residential construction and actions taken by certain major customers late in 2006 to reduce inventory levels. Sales of the consumer power tools and accessories business in the United States decreased at a low single-digit rate primarily as a result of lower consumer power tool and pressure washer sales, which were partially offset by the sales of the acquired Vector business. Excluding the sales of the acquired Vector business, sales of the consumer power tools and accessories business declined at a low double-digit rate from the 2005 level with sales down across most channels and product lines. Actions taken by major retailers to reduce inventory levels also negatively impacted the U.S. consumer power tools and accessories business in 2006. In Canada, sales decreased at a low single-digit rate, as a double-digit rate of decline in sales of consumer power tools and accessories was partially offset by a mid-single-digit rate of increase in sales of industrial power tools and accessories.

Sales of the European power tools and accessories business during 2006 increased at a low single-digit rate over the level experienced in 2005. A mid-single-digit rate of increase of organic sales was partially offset by the sales decline that resulted from the divestiture of the FLEX business in late 2005. While sales grew in 2006 across most markets, marked growth was experienced in the Middle East and Africa region as well as in Eastern Europe. Sales of the European industrial power tools and accessories business increased at a low single-digit rate in 2006. That increase was the result of a double-digit rate of increase in legacy sales of the industrial power tools and accessories business in Europe which was partially offset by the effects of the FLEX divestiture. Sales of the Corporation's consumer power tools and accessories business in Europe increased at a low single-digit rate during 2006.

Sales in other geographic areas increased at a double-digit rate in 2006 over the 2005 level. That increase resulted from a double-digit rate of increase in Latin America and a mid-single-digit rate of increase in Asia.

Segment profit as a percentage of sales for the Power Tools and Accessories segment was 12.0% for 2006, as compared to 13.2% for the corresponding 2005 period. The incremental effect of the Vector acquisition on segment profit as a percentage of sales for 2006 was not material. Gross margin as a percentage of sales for 2006 declined in comparison to the corresponding 2005 period primarily due to negative pricing actions, lower sales and production volume over which to absorb fixed costs, and commodity inflation. Those negative factors were mitigated by the benefits of restructuring and productivity initiatives as well as favorable mix. Selling, general, and administrative expenses as a percentage of sales for 2006 increased, as compared to the corresponding 2005 period, due principally to the de-leveraging of fixed and semi-fixed costs over a lower sales base.

Sales to unaffiliated customers in the Power Tools and Accessories segment during 2005 increased 26% over the 2004 level. The incremental effect of the acquired Porter-Cable and Delta Tools Group for the first nine months of 2005 accounted for 19 percentage points of the 26% increase in 2005, while sales of the legacy Power Tools and Accessories businesses, including the acquired Porter-Cable and Delta Tools Group for the final three months of 2005, accounted for the remaining 7 percentage points of growth.

Sales in North America increased 36% during 2005 over the prior year's level. Of this increase, 27 percentage points were due to the incremental sales of the acquired Porter-Cable and Delta Tools Group for the first nine months of 2005 and the remaining 9 percentage points were due to the legacy power tools and accessories business. Sales of the Corporation's legacy industrial power tools and accessories business in North America increased at a double-digit rate over the 2004 levels. Sales of the Corporation's legacy consumer power tools and accessories business increased at a mid-single-digit rate as a result of higher sales of consumer power tools and accessories, lawn and garden products, and cleaning and lighting products.

Sales in Europe during 2005 increased at a mid-single-digit rate over the 2004 levels due to the incremental effect of the acquired Porter-Cable and Delta Tools Group. Excluding the incremental effect of the acquired Porter-Cable and Delta Tools Group, sales in Europe increased slightly over the 2004 level. Sales of the Corporation's legacy industrial power tools and accessories business in Europe during 2005 increased at a low single-digit rate as compared to 2004 as weaker economic conditions in the United Kingdom mitigated growth in other regions. Sales of the Corporation's legacy consumer power tools and accessories businesses in Europe during 2005 approximated sales in the prior year. In November 2005, the Corporation sold the FLEX business, the major European component of the Porter-Cable and Delta Tools Group.

Sales in other geographic areas increased at a double-digit rate during 2005 over the 2004 levels. That increase resulted from a double-digit rate of increase in Latin America and Asia, which was partially offset by a double-digit rate of decline in Australia.

Segment profit as a percentage of sales for the Power Tools and Accessories segment was 13.2% for 2005, as compared to 12.7% in 2004. That increase in segment profit as a percentage of sales resulted from a reduction in selling, general, and administrative expenses as a percentage of sales partially offset by a lower gross margin as a percentage of sales. The reduction in selling, general, and administrative expenses as a percentage of sales was attributable to both the impact of the Porter-Cable and Delta Tools Group acquisition – due to the lower expenses of this business – and the leverage of expenses over a higher sales base in the Corporation's legacy businesses. Gross margin as a percentage of sales declined during 2005 as compared to 2004 as the impact of the lower-margin Porter-Cable and Delta Tools Group offset improvements in gross margin as a percentage of sales in the Corporation's legacy businesses. Gross margin improved in the legacy businesses in 2005 due to favorable product mix, productivity gains, foreign currency effects, restructuring savings, and absorption benefits, which offset the negative effects of pricing actions and raw material inflation. Due to the ongoing integration of the acquired Porter-Cable and Delta Tools Group into its legacy businesses, it is difficult to precisely determine the individual profit contributions of the acquired Porter-Cable and Delta Tools Group and of the legacy businesses. The Corporation estimates that the Porter-Cable and Delta Tools Group acquisition had an approximate 60 basis point negative impact on segment profit as a percentage of sales for 2005.

HARDWARE AND HOME IMPROVEMENT

Segment sales and profit for the Hardware and Home Improvement segment, determined on the basis described in Note 18 of Notes to Consolidated Financial Statements, were as follows (in millions of dollars):

YEAR ENDED DECEMBER 31,	2006	2005	2004
Sales to unaffiliated customers	\$1,003.4	\$1,019.8	\$970.2
Segment profit	135.4	143.9	146.3

Sales to unaffiliated customers in the Hardware and Home Improvement segment during 2006 decreased 2% from the 2005 level, due primarily to a mid-single-digit rate of decline in sales of plumbing products. Despite a double-digit rate of decline in U.S. housing starts in 2006, sales of security hardware products approximated the 2005 level. Sales of Kwikset products grew at a low single-digit rate, as higher retail sales and the effects of a price increase during the fourth quarter of 2006 offset weakness in the wholesale channel. That growth in Kwikset sales offset a low single-digit rate of decline in sales of Weiser and Baldwin products.

Segment profit as a percentage of sales in the Hardware and Home Improvement segment decreased from 14.1% in 2005 to 13.5% in 2006. The decline in segment profit as a percentage of sales in 2006 was attributable to a decline in gross margin, as the favorable effects of restructuring/integration and productivity initiatives, coupled with price increases instituted by the segment, were insufficient to offset the negative effects of significant commodity inflation, particularly with respect to copper and zinc, and lower sales and production volumes. Selling, general, and administrative expenses as a percentage of sales decreased in 2006, as compared to 2005, as a result of cost reduction initiatives.

Sales to unaffiliated customers in the Hardware and Home Improvement segment increased 5% during 2005 over the 2004 level. During 2005, sales of plumbing products increased at a double-digit rate over the 2004 level due to increased listings at a significant customer and strong sales at other retailers. Sales of security hardware products in 2005 increased slightly over the 2004 level, as a mid-single-digit rate of increase in sales of the Kwikset business in North America was substantially offset by a mid-single-digit rate of decline in sales of the Baldwin and Weiser businesses.

Segment profit as a percentage of sales for the Hardware and Home Improvement segment was 14.1% for 2005 and 15.1% for 2004. The decline in segment profit as a percentage of sales in 2005 was attributable to a decline in gross margin, which was primarily due to the negative effects of pricing actions, higher raw material costs, and transition costs associated with the integration of lockset operations, including the closure of a manufacturing site. Gross margin for 2005 was also negatively impacted by the write-down of property and equipment. Selling, general, and administrative expenses as a percentage of sales decreased slightly in 2005, as compared to the 2004 level, due to the leverage of expenses over a higher sales base in the Kwikset and Price Pfister businesses, which was partially offset by increased distribution and transportation costs.

FASTENING AND ASSEMBLY SYSTEMS

Segment sales and profit for the Fastening and Assembly Systems segment, determined on the basis described in Note 18 of Notes to Consolidated Financial Statements, were as follows (in millions of dollars):

YEAR ENDED DECEMBER 31,	2006	2005	2004
Sales to unaffiliated customers	\$666.5	\$662.2	\$619.9
Segment profit	95.8	94.6	84.2

Sales to unaffiliated customers in the Fastening and Assembly Systems segment increased 1% in 2006 over the 2005 level. Sales of the North American businesses declined at a mid-single-digit rate, reflecting both weak industrial sales and weak automotive sales in the face of production cuts by automotive customers. Sales in the European industrial business rose at a low single-digit rate while sales in the European automotive business approximated the prior year level. In Asia, sales grew at a double-digit rate, reflecting strong sales in both Japan and China.

Segment profit as a percentage of sales for the Fastening and Assembly Systems segment increased slightly from 14.3% in 2005 to 14.4% in 2006. The segment reduced selling, general, and administrative expenses as a percentage of sales, despite higher research and development expenditures, due to spending controls in 2006. However, that favorability was offset by a decline in gross margin, primarily as a result of commodity inflation and the unfavorable effects of foreign currency.

Sales to unaffiliated customers in the Fastening and Assembly Systems segment increased by 7% in 2005 over the 2004 level, with the incremental sales of the MasterFix business for the first three months of 2005 accounting for 1 percentage point of that increase. Sales in the automotive channel in North America increased at a mid-single-digit rate over the level experienced in 2004. Sales in the industrial channel in North America decreased at a low single-digit rate, as compared to 2004. Sales in Europe increased at a double-digit rate, as compared to 2004. Sales in the European industrial business increased at a high single-digit rate of growth – due in part, to incremental sales of the acquired MasterFix business – during 2005 over the 2004 level. Sales in the European automotive business increased at a double-digit rate during 2005 over the 2004 level. Sales in Asia during 2005 increased at a double-digit rate, as compared to 2004.

Segment profit as a percentage of sales for the Fastening and Assembly Systems segment increased from 13.6% in 2004 to 14.3% in 2005. The increase in segment profit as a percentage of sales was attributable to the positive effects of pricing actions and the leverage of expenses over a higher sales base, partially offset by higher commodity costs.

OTHER SEGMENT-RELATED MATTERS

As indicated in the first table of Note 18 of Notes to Consolidated Financial Statements, segment profit (loss), associated with Corporate, Adjustments, and Eliminations was \$(65.1) million, \$(81.2) million, and \$(100.7) million for the years ended December 31, 2006, 2005, and 2004, respectively. Corporate expenses for the year ended December 31, 2006, declined from the prior year's level as the positive effects of certain lower employee-related expenses not allocated directly to the reportable business segments (including performance-based incentives), as well as higher Corporate expense allocations charged directly to the Corporation's business segments, were partially offset by the negative effects of higher pension and environmental expenses.

Corporate expenses for the year ended December 31, 2005, declined from the prior year's level as the positive effects of increased allocations of Corporate expenses to the reportable business segments to reflect the impact of acquired businesses, lower expenses associated with intercompany eliminations, and a lower level of expenses directly related to the reportable business segments offset the negative effects of increased pension, postretirement benefits, and environmental expenses.

As more fully described in Note 18 of Notes to Consolidated Financial Statements, in determining segment profit, expenses relating to pension and other postretirement benefits are based solely

upon estimated service costs. Expense recognized by the Corporation in 2006 relating to its pension and other postretirement benefits plans increased by approximately \$13 million over the 2005 levels. Expense recognized by the Corporation in 2005 relating to its pension and other postretirement benefits plans increased by approximately \$19 million over the 2004 levels. The adjustment to businesses' postretirement benefit expense booked in consolidation as identified in the second table included in Note 18 of Notes to Consolidated Financial Statements was expense of \$25.2 million in 2006, as compared to expense of \$13.8 million for 2005 and income of \$.8 million for 2004. That increase in expense resulted from the higher level of pension and other postretirement benefit expenses in 2006 – excluding higher service costs reflected in segment profit of the Corporation's reportable business segments – not allocated to the reportable business segments.

Income (expenses) directly related to reportable business segments booked in consolidation, and, thus, excluded from segment profit for the reportable business segments, were \$(.2) million, \$3.3 million, and \$(10.0) million for the years ended December 31, 2006, 2005 and 2004, respectively. The \$.2 million of segment-related expense excluded from segment profit in 2006 principally related to an increase in reserves for certain matters associated with the Power Tools and Accessories segment. However, that increase was substantially offset by the reversal of certain performance-based expenses included in the allocation of Corporate expenses to each of the reportable business segments. The \$3.3 million of segment-related income excluded from segment profit in 2005 principally related to a reduction in reserves for certain legal matters associated with the Power Tools and Accessories and Hardware and Home Improvement segments. The \$10.0 million of segment-related expense excluded from segment profit in 2004 principally related to restructuring-related expenses associated with the Hardware and Home Improvement and Power Tools and Accessories segments.

DISCONTINUED OPERATIONS

As more fully discussed in Note 3 of Notes to Consolidated Financial Statements, the European security hardware business, consisting of the NEMEF, Corbin, and DOM businesses, has been reflected as discontinued operations in the Consolidated Financial Statements. As such, the operating results, assets and liabilities, and cash flows of the discontinued European security hardware business have been reported separately from the Corporation's continuing operations. In November 2005, the Corporation completed the sale of the DOM security hardware business for an aggregate price of \$17.2 million, net of cash transferred. In January 2004, the Corporation completed the sale of two European security hardware businesses, NEMEF and Corbin, for an aggregate price of \$77.5 million, net of cash transferred.

Net (loss) earnings of the discontinued European security hardware business were \$(.1) million for the year ended December 31, 2005, and \$14.9 million (\$.18 per share on a diluted basis) for the year ended December 31, 2004.

Restructuring and Integration Actions

The Corporation is committed to continuous productivity improvement and continues to evaluate opportunities to reduce fixed costs, simplify or improve processes, and eliminate excess capacity. A tabular summary of restructuring activity during the three years ended December 31, 2006, is included in Note 20 of Notes to Consolidated Financial Statements.

In 2004, the Corporation recognized \$5.4 million of pre-tax restructuring and exit costs related to actions taken in its Power Tools and Accessories segment. The restructuring actions taken in 2004 principally reflected severance benefits. The \$5.4 million charge recognized during 2004 was offset, however, by the reversal of \$4.0 million of severance accruals established as part of previously provided restructuring reserves that were no longer required and \$1.4 million representing the excess of proceeds received on the sale of long-lived assets, written down as part of restructuring actions, over their adjusted carrying values. Adjustments to the severance component of restructuring reserves previously established related to: (i) actual attrition factors that differed from those initially estimated; (ii) more cost-effective methods of severing employment that became probable, typically based on negotiations with trade unions or local government institutions; and (iii) amendments to the initial plan that were approved by the appropriate level of management, based primarily on changes in market conditions that dictated a modification to the intended course of action. During 2004, none of the adjustments to the severance obligations recorded in connection with restructuring actions was individually significant. Adjustments to the asset write-down component of restructuring reserves previously established related to the receipt of proceeds in excess of adjusted carrying values of fixed assets that were disposed of in connection with the restructuring actions. Adjustments to the other charge component of restructuring reserves previously established principally related to settlement of operating lease commitments at amounts less than initially

estimated or the Corporation's ability to sublease certain facilities exited as part of the restructuring actions.

During 2005, the Corporation substantially completed the execution of the restructuring plan that was formulated in the fourth quarter of 2001 and the closure of the manufacturing facility in its Hardware and Home Improvement segment.

In addition to the recognition of restructuring and exit costs, the Corporation also recognized related expenses, incremental to the cost of the underlying restructuring actions, that do not qualify as restructuring or exit costs under accounting principles generally accepted in the United States (restructuring-related expenses). Those restructuring-related expenses included items – directly related to the underlying restructuring actions – that benefited on-going operations, such as costs associated with the transfer of equipment. Operating results included approximately \$10 million of restructuring-related expenses for the year ended December 31, 2006, as compared to approximately \$15 million of restructuring-related expenses for both 2005 and 2004.

The Corporation realized benefits of approximately \$25 million and \$35 million in 2006 and 2005, respectively, net of restructuring-related expenses. Those benefits resulted in a reduction in cost of goods sold of approximately \$21 million and \$33 million in 2006 and 2005, respectively, and a reduction in selling, general, and administrative expenses of approximately \$4 million and \$2 million in 2006 and 2005, respectively.

In addition to the previously discussed restructuring actions, the Corporation also identified opportunities to integrate businesses it has acquired, including the Porter-Cable and Delta Tools Group as well as Vector.

Prior to the date of the acquisition of the Porter-Cable and Delta Tools Group and during 2004, the Corporation identified opportunities to restructure, as well as to integrate, these businesses into its existing Power Tools and Accessories segment. Subsequent to the acquisition, the Corporation approved restructuring/integration actions relating to the acquired business in the amount of \$15.2 million. These actions principally reflected severance costs associated with administrative and manufacturing actions related to the acquired businesses, including the closure of three manufacturing facilities, and lease and other contractual obligations for which no future benefit would be realized. Certain of these restructuring/integration actions commenced in 2004 and the remainder commenced in 2005; all actions were substantially completed in 2006.

Prior to the date of the acquisition of Vector and during 2006, the Corporation identified opportunities to integrate that business into its existing Power Tools and Accessories segment. Subsequent to the acquisition, the Corporation approved restructuring/integration actions relating to the acquired business in the amount of \$1.3 million. These actions principally reflected severance costs associated with administrative and distribution functions of the acquired business, as well as the cost of lease and other contractual obligations for which no future benefit would be realized. These actions are expected to be completed by mid-2007.

The Corporation expects that incremental pre-tax savings associated with the integration of the Porter-Cable and Delta Tools Group will benefit results by approximately \$15 million in 2007, net of integration-related expenses. The Corporation expects that principally all of those incremental pre-tax savings will benefit gross margin. Ultimate savings realized from restructuring/integration actions may be mitigated by such factors as economic weakness and competitive pressures, as well as decisions to increase costs in areas such as promotion or research and development above levels that were otherwise assumed.

Hedging Activities

The Corporation has a number of manufacturing sites throughout the world and sells its products in more than 100 countries. As a result, it is exposed to movements in the exchange rates of various currencies against the United States dollar and against the currencies of countries in which it manufactures. The major foreign currencies in which foreign currency risks exist are the euro, pound sterling, Canadian dollar, Japanese yen, Chinese renminbi, Australian dollar, Mexican peso, Czech koruna, and Brazilian real. Through its foreign currency activities, the Corporation seeks to reduce the risk that cash flows resulting from the sales of products manufactured in a currency different from that of the selling subsidiary will be affected by changes in exchange rates.

From time to time, currencies may strengthen or weaken in countries in which the Corporation sells or manufactures its product. While the Corporation will take actions to mitigate the impacts of any future currency movements, there is no assurance that such movements will not adversely affect the Corporation.

Assets and liabilities of subsidiaries located outside of the United States are translated at rates of exchange at the balance sheet date as more fully explained in Note 1 of Notes to Consolidated Financial Statements. The resulting translation

adjustments are included in the accumulated other comprehensive income (loss) component of stockholders' equity. During 2006, translation adjustments, recorded in the accumulated other comprehensive income (loss) component of stockholders' equity, increased stockholders' equity by \$70.3 million, as compared to a decrease of \$89.1 million in 2005.

The materials used in the manufacturing of the Corporation's products, which include certain components and raw materials, are subject to price volatility. These component parts and raw materials are principally subject to market risk associated with changes in the price of steel, resins, copper, aluminum, and zinc. The materials used in the various manufacturing processes are purchased on the open market, and the majority is available through multiple sources. Rising commodity costs decreased operating income in 2006 by approximately \$95 million from the 2005 level and are expected to decrease operating income by approximately \$120 million in 2007 from the 2006 level. While future movements in prices of raw materials and component parts are uncertain, the Corporation uses a variety of methods, including established supply arrangements, purchase of component parts and raw materials for future delivery, and supplier price commitments, to address this risk. In addition, the Corporation utilizes derivatives to manage its risk to changes in the prices of certain commodities. As of December 31, 2006, the amount outstanding under commodity hedges was not material.

As more fully described in Note 10 of Notes to Consolidated Financial Statements, the Corporation seeks to issue debt opportunistically, whether at fixed or variable rates, at the lowest possible costs. Based upon its assessment of the future interest rate environment and its desired variable rate debt to total debt ratio, the Corporation may elect to manage its interest rate risk associated with changes in the fair value of its indebtedness, or the cash flows of its indebtedness, through the use of interest rate swap agreements.

In order to meet its goal of fixing or limiting interest costs, the Corporation maintains a portfolio of interest rate hedge instruments. The variable rate debt to total debt ratio, after taking interest rate hedges into account, was 42% at December 31, 2006, as compared to 64% at December 31, 2005, and 52% at December 31, 2004. At December 31, 2006, average debt maturity was 6.7 years, as compared to 4.9 years at December 31, 2005, and 8.3 years at December 31, 2004. At December 31, 2006, average long-term debt maturity was 8.0 years, as compared to 7.3 years at December 31, 2005, and 8.3 years at December 31, 2004.

INTEREST RATE SENSITIVITY

The following table provides information as of December 31, 2006, about the Corporation's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations, the table presents principal cash flows and related average interest rates by contractual maturity dates. For interest rate swaps, the table presents notional principal amounts and weighted-average interest rates by contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the interest rate swaps. Weighted-average variable rates are generally based on the London Interbank Offered Rate (LIBOR) as of the reset dates. The cash flows of these instruments are denominated in a variety of currencies. Unless otherwise indicated, the information is presented in U.S. dollar equivalents, which is the Corporation's reporting currency, as of December 31, 2006.

Principal Payments and Interest Rate Detail by Contractual Maturity Dates

(U.S. DOLLARS IN MILLIONS)	2007	2008	2009	2010	2011	THEREAFTER	TOTAL	FAIR VALUE (ASSETS)/ LIABILITIES
LIABILITIES								
Short-term borrowings								
Variable rate (other currencies)	\$258.9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 258.9	\$ 258.9
Average interest rate	5.43%						5.43%	
Long-term debt								
Fixed rate (U.S. dollars)	\$150.2	\$.2	\$.1	\$ -	\$400.0	\$ 750.0	\$1,300.5	\$ 1,299.9
Average interest rate	6.55%	7.00%	7.00%		7.13%	5.61%	6.18%	
INTEREST RATE DERIVATIVES								
Fixed to Variable Rate Interest								
Rate Swaps (U.S. dollars)	\$ 75.0	\$ -	\$ -	\$ -	\$150.0	\$ 175.0	\$ 400.0	\$ 1.3
Average pay rate (a)								
Average receive rate	5.22%				5.34%	4.86%	5.11%	

(a) The average pay rate for swaps in the notional principal amount of \$250.0 million is based upon 3-month forward LIBOR (with swaps in the notional principal amount of \$75.0 million, \$150.0 million, and \$25.0 million maturing in 2007, 2011, and thereafter, respectively). The average pay rate for the remaining swaps is based upon 6-month forward LIBOR.

FOREIGN CURRENCY EXCHANGE RATE SENSITIVITY

As discussed previously, the Corporation is exposed to market risks arising from changes in foreign exchange rates. As of December 31, 2006, the Corporation has hedged a portion of its 2007 estimated foreign currency transactions using forward exchange contracts. The Corporation estimated the effect on 2007 gross profits, based upon a recent estimate of foreign exchange exposures, of a uniform 10% strengthening in the value of the United States dollar. The Corporation estimated that this would have the effects of reducing gross profits for 2007 by approximately \$26 million. The Corporation also estimated the effects on 2007 gross profits, based upon a recent estimate of foreign exchange exposures, of a uniform 10% weakening in the value of the United States dollar. A uniform 10% weakening in the value of the United States dollar would have the effect of increasing gross profits.

In addition to their direct effects, changes in exchange rates also affect sales volumes and foreign currency sales prices as competitors' products become more or less attractive. The sensitivity analysis of the effects of changes in foreign currency exchange rates previously described does not reflect a potential change in sales levels or local currency prices nor does it reflect higher exchange rates, as compared to those experienced during 2006, inherent in the foreign exchange hedging portfolio at December 31, 2006.

Critical Accounting Policies

The Corporation's accounting policies are more fully described in Note 1 of Notes to Consolidated Financial Statements. As disclosed in Note 1 of Notes to Consolidated Financial Statements, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The Corporation believes that, of its significant accounting policies, the following may involve a higher degree of judgment, estimation, or complexity than other accounting policies.

As more fully described in Note 1 of Notes to Consolidated Financial Statements, the Corporation performs goodwill impairment tests on at least an annual basis and more frequently in certain circumstances. The Corporation cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill that totaled \$1,195.6 million at December 31, 2006. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on the Corporation's customer base, or a material negative change in its relationships with significant customers.

Pension and other postretirement benefits costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, expected return on plan assets, rates of salary increase, health care cost trend rates, mortality rates, and other factors. These assumptions are updated on an annual basis prior to the beginning of each year. The Corporation considers current market conditions, including interest rates, in making these assumptions. The Corporation develops the discount rates by considering the yields available on high-quality fixed income investments with maturities corresponding to the related benefit obligation. The Corporation's discount rate for United States defined benefit pension plans was 6.00% and 5.75% at December 31, 2006 and 2005, respectively. As discussed further in Note 13 of Notes to Consolidated Financial Statements, the Corporation develops the expected return on plan assets by considering various factors, which include its targeted asset allocation percentages, historic returns, and expected future returns. The Corporation's expected long-term rate of return assumption for United States defined benefit plans for 2006 and 2007 is 8.75%.

The Corporation believes that the assumptions used are appropriate; however, differences in actual experience or changes in the assumptions may materially affect the Corporation's financial position or results of operations. In accordance with accounting principles generally accepted in the United States, actual results that differ from the actuarial assumptions are accumulated and, if in excess of a specified corridor, amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. The expected return on plan assets is determined using the expected rate of return and a calculated value of assets referred to as the market-related value of assets. The Corporation's aggregate fair value of plan assets exceeded the market-related value of assets by approximately \$71.6 million as of the 2006 measurement date. Differences between assumed and actual

returns are amortized to the market-related value on a straight-line basis over a five-year period. Also, gains and losses resulting from changes in assumptions and from differences between assumptions and actual experience (except those differences being amortized to the market-related value of assets) are amortized over the expected remaining service period of active plan participants or, for retired participants, the average remaining life expectancy, to the extent that such amounts exceed ten percent of the greater of the market-related value of plan assets or the projected benefit obligation at the beginning of the year. The Corporation expects that its pension and other postretirement benefit costs in 2007 will approximate the costs recognized in 2006.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires two major changes to accounting for defined benefit and other postretirement plans, with two different effective dates. The first requirement of SFAS No. 158, which the Corporation adopted as of December 31, 2006, requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or a liability in the balance sheet, with changes in the funded status recorded through comprehensive income in the year in which those changes occur. The impact of the Corporation's adoption of SFAS No. 158 is more fully described in Note 13 of Notes to Consolidated Financial Statements.

The second requirement of SFAS No. 158, which is effective for the Corporation as of December 31, 2008, requires that the funded status be measured as of an entity's year-end balance sheet date rather than as of an earlier date as currently permitted. The Corporation currently uses a measurement date of September 30 for the majority of its defined benefit pension and postretirement plans.

As more fully described in Item 3 of this report, the Corporation is subject to various legal proceedings and claims, including those with respect to environmental matters, the outcomes of which are subject to significant uncertainty. The Corporation evaluates, among other factors, the degree of probability of an unfavorable outcome, the ability to make a reasonable estimate of the amount of loss, and in certain instances, the ability of other parties to share costs. Also, in accordance with accounting principles generally accepted in the United States, when a range of probable loss exists, the Corporation accrues at the low end of the range when no other more likely amount exists. Unanticipated events or changes in these factors may require the Corporation to increase the amount it has accrued for any matter or accrue for a matter that has not been previously accrued because it was not probable.

Further, as indicated in Note 21 of Notes to Consolidated Financial Statements, insurance recoveries for environmental and certain general liability claims have not been recognized until realized. Any insurance recoveries, if realized in future periods, could have a favorable impact on the Corporation's financial condition or results of operations in the periods realized.

The Corporation is also subject to income tax laws in many countries. Judgment is required in assessing the future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns. Additionally, the Corporation is subject to periodic examinations by taxing authorities in many countries. The final outcome of these future tax consequences, tax audits, and changes in regulatory tax laws and rates could materially impact the Corporation's financial statements. A discussion of a significant tax matter that is the subject of current litigation between the Corporation and the U.S. Internal Revenue Service is included under the caption "Financial Condition".

Impact of New Accounting Standards

As more fully described in Note 1 of Notes to Consolidated Financial Statements, the Corporation has not yet fully adopted the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106, and 132(R)*. Also, as more fully described in Note 1 of Notes to Consolidated Financial Statements, the Corporation has not yet adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, and SFAS No. 157, *Fair Value Measurements*.

Financial Condition

Operating activities provided cash of \$622.7 million for the year ended December 31, 2006, as compared to \$614.1 million for the year ended December 31, 2005. Cash flow from operating activities for the year ended December 31, 2005, included cash flow from discontinued operations of \$4.7 million. The increase in cash provided by operating activities in 2006, as compared to

2005, was primarily due to lower cash used for working capital, in particular trade receivables and inventories (associated with the lower level of sales and lower production levels), which was partially offset by a higher usage of cash associated with other current liabilities, including higher income tax payments due, in part, to tax payments associated with repatriating foreign earnings under the American Jobs Creation Act of 2004 (AJCA). That improvement in cash used for working capital was partially offset by lower net earnings in 2006 as compared to 2005, including the effect of a \$55 million pre-tax settlement with an insurer in 2005.

As part of its capital management, the Corporation reviews certain working capital metrics. For example, the Corporation evaluates its trade receivables and inventory levels through the computation of days sales outstanding and inventory turnover ratio, respectively. The number of days sales outstanding as of December 31, 2006, increased moderately over the level as of December 31, 2005. Average inventory turns as of December 31, 2006, approximated inventory turns as of December 31, 2005.

Investing activities used cash of \$241.0 million for the year ended December 31, 2006, as compared to \$34.6 million for the year ended December 31, 2005. This increase in cash used was primarily the result of acquisition activity in 2006, as compared to divestiture activity in 2005. Cash used by investing activities in 2006 included the purchase of Vector for \$158.5 million, net of cash acquired, which was partially offset by \$16.1 million of cash received associated with the final adjustment to the purchase price of the Porter-Cable and Delta Tools Group. In 2005, cash proceeds from divestiture and acquisition activity totaled \$61.2 million, including \$33.6 million associated with the sale of Flex, \$17.2 million associated with the sale of discontinued operations, and \$10.4 million associated with a preliminary adjustment to the purchase price of the Porter-Cable and Delta Tools Group. Capital expenditures decreased \$6.5 million during 2006 as compared to the 2005 period. The Corporation anticipates that its capital spending in 2007 will approximate \$120 million.

Financing activities used cash of \$1,124.9 million for the year ended December 31, 2006, as compared to \$115.3 million for the year ended December 31, 2005. Cash used by financing activities in 2006 included the purchase by the Corporation of 11,753,700 shares of its common stock at an aggregate cost of \$896.0 million, a net decrease in short-term borrowings of \$309.3 million, the repayment of the 7.0% notes due February 1, 2006 of \$154.6 million, and dividend payments of \$109.1 million. In 2006, the Corporation increased its dividend payment – on a per share basis from \$1.12 during 2005 to \$1.52 during 2006. Sources of cash from financing activities in 2006 included the issuance of \$300.0 million of 5.75% Senior Notes due in 2016, and \$48.2 million of proceeds received upon the issuance of common stock, including certain related income tax benefits, under stock-based compensation plans.

Cash used by financing activities in 2005 included the purchase by the Corporation of 6,276,700 shares of its common stock at an aggregate cost of \$525.7 million, repayment of \$136.0 million of preferred stock of a subsidiary, and dividend payments of \$88.6 million. Sources of cash from financing activities in 2005 included a net increase in short-term borrowings of \$565.6 million associated with the repatriation of foreign earnings under the AJCA and \$69.9 million of proceeds received upon the issuance of common stock, including certain related income tax benefits, under stock-based compensation plans.

The Corporation carried out its share repurchase program based upon the belief that its shares were undervalued and to manage share growth resulting from option exercises. Subsequent to December 31, 2006, the Corporation repurchased 1,139,300 shares of its common stock at an aggregate cost of \$90.7 million. In February 2007, the Board of Directors authorized the Corporation to repurchase an additional 3,000,000 shares of its common stock. After those share repurchases and that authorization, the Corporation has remaining authorization from its Board of Directors to repurchase an additional 5,175,795 shares of its common stock. In addition, in February 2007, the Corporation announced that its Board of Directors declared a quarterly cash dividend of \$.42 per share of the Corporation's outstanding common stock payable during the first quarter of 2007. The \$.42 dividend represents an 11% increase over the \$.38 quarterly dividend paid by the Corporation in 2006. Future dividends will depend on the Corporation's earnings, financial condition, and other factors.

During 2003, the Corporation received notices of proposed adjustments from the United States Internal Revenue Service (IRS) in connection with audits of the tax years 1998 through 2000. The principal adjustment proposed by the IRS consists of the disallowance of a capital loss deduction taken in the Corporation's tax returns and interest on the deficiency. Prior to receiving the notices of proposed adjustments from the IRS, the Corporation filed a petition against the IRS in the Federal

District Court of Maryland (the Court) seeking refunds for a carryback of a portion of the aforementioned capital loss deduction. The IRS subsequently filed a counterclaim to the Corporation's petition. In October 2004, the Court granted the Corporation's motion for summary judgment on its complaint against the IRS and dismissed the IRS counterclaim. In its opinion, the Court ruled in the Corporation's favor that the capital losses cannot be disallowed by the IRS. In December 2004, the IRS appealed the Court's decision in favor of the Corporation to the United States Circuit Court of Appeals for the Fourth Circuit (the Fourth Circuit Court). In February 2006, the Fourth Circuit Court issued its decision, deciding two of three issues in the Corporation's favor and remanding the third issue for trial in the Court. The Corporation intends to vigorously dispute the position taken by the IRS in this matter. The Corporation has provided adequate reserves in the event that the IRS prevails in its disallowance of the previously described capital loss and the imposition of related interest. Should the IRS prevail in its disallowance of the capital loss deduction and the imposition of related interest, it would result in a cash outflow by the Corporation of approximately \$170 million. If the Corporation prevails, it would result in the Corporation receiving a refund of taxes previously paid of approximately \$50 million, plus interest.

The ongoing costs of compliance with existing environmental laws and regulations have not had, and are not expected to have, a material adverse effect on the Corporation's capital expenditures or financial position.

The Corporation will continue to have cash requirements to support seasonal working capital needs and capital expenditures, to pay interest, and to service debt. For amounts available at December 31, 2006, under the Corporation's revolving credit facilities and under short-term borrowing facilities, see Note 8 of Notes to Consolidated Financial Statements. In order to meet its cash requirements, the Corporation intends to use its existing cash, cash equivalents, and internally generated funds, and to borrow under its existing and future unsecured revolving credit facilities or under short-term borrowing facilities. The Corporation believes that cash provided from these sources will be adequate to meet its cash requirements over the next 12 months.

The following table provides a summary of the Corporation's contractual obligations by due date (in millions of dollars). The Corporation's short-term borrowings, long-term debt, and lease commitments are more fully described in Notes 8, 9, and 19, respectively, of Notes to Consolidated Financial Statements.

PAYMENTS DUE BY PERIOD

	LESS THAN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	AFTER 5 YEARS	TOTAL
Short-term borrowings (a) (b) (c)	\$ 259.6	\$ –	\$ –	\$ –	\$ 259.6
Long-term debt (c)	230.6	141.5	526.9	1,058.8	1,957.8
Operating leases	68.1	87.4	31.5	9.9	196.9
Purchase obligations (d)	470.2	64.2	.9	.4	535.7
Total contractual cash obligations (e)	\$1,028.5	\$ 293.1	\$ 559.3	\$1,069.1	\$2,950.0

- (a) As more fully described in Note 8 of Notes to Consolidated Financial Statements, the Corporation has a \$1.0 billion commercial paper program as well as a supporting \$1.0 billion credit facility that matures in October 2009. There was \$251.4 million outstanding under the commercial paper program at December 31, 2006. The Corporation's average borrowing outstanding under these facilities during 2006 was \$509.6 million.
- (b) As described in Note 8 of Notes to Consolidated Financial Statements, certain subsidiaries of the Corporation outside of the United States have uncommitted lines of credit of \$504.6 million at December 31, 2006. These uncommitted lines of credit do not have termination dates and are reviewed periodically.
- (c) Payments due by period include contractually required interest payments.
- (d) The Corporation enters into contractual arrangements that result in its obligation to make future payments, including purchase obligations. The Corporation enters into these arrangements in the ordinary course of business in order to ensure adequate levels of inventories, machinery and equipment, or services. Purchase obligations primarily consist of inventory purchase commitments, including raw materials, components, and sourced products, sponsorship arrangements, and arrangements for other services.
- (e) The Corporation anticipates that funding of its pension and postretirement benefit plans in 2007 will approximate \$35 million. That amount principally represents contributions either required by regulations or laws or, with respect to unfunded plans, necessary to fund current benefits. The Corporation has not presented estimated pension and postretirement funding in the table above as the funding can vary from year to year based upon changes in the fair value of the plan assets and actuarial assumptions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required under this Item is contained in Item 7 of this report under the caption “Hedging Activities” and in Item 8 of this report in Notes 1 and 10 of Notes to Consolidated Financial Statements, and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Corporation and its subsidiaries are included herein as indicated below:

Consolidated Financial Statements

Consolidated Statement of Earnings – years ended December 31, 2006, 2005, and 2004.

Consolidated Balance Sheet – December 31, 2006 and 2005.

Consolidated Statement of Stockholders’ Equity – years ended December 31, 2006, 2005, and 2004.

Consolidated Statement of Cash Flows – years ended December 31, 2006, 2005, and 2004.

Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF EARNINGS
THE BLACK & DECKER CORPORATION AND SUBSIDIARIES
(DOLLARS IN MILLIONS EXCEPT PER SHARE DATA)

YEAR ENDED DECEMBER 31,	2006	2005	2004
SALES	\$6,447.3	\$6,523.7	\$5,398.4
Cost of goods sold	4,205.8	4,206.6	3,432.9
Selling, general, and administrative expenses	1,501.1	1,522.2	1,352.3
OPERATING INCOME	740.4	794.9	613.2
Interest expense (net of interest income of \$29.6 for 2006, \$36.5 for 2005, and \$35.8 for 2004)	73.8	45.4	22.1
Other expense (income)	2.2	(51.6)	2.8
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	664.4	801.1	588.3
Income taxes	178.3	268.9	157.6
NET EARNINGS FROM CONTINUING OPERATIONS	486.1	532.2	430.7
DISCONTINUED OPERATIONS (NET OF INCOME TAXES):			
Earnings of discontinued operations (net of income taxes of \$.5 for 2005 and \$1.0 for 2004)	-	-	2.2
(Loss) gain on sale of discontinued operations (net of impairment charge of \$24.4 in 2004)	-	(1)	12.7
NET (LOSS) EARNINGS FROM DISCONTINUED OPERATIONS	-	(1)	14.9
NET EARNINGS	\$ 486.1	\$ 532.1	\$ 445.6
BASIC EARNINGS PER COMMON SHARE			
Continuing operations	\$ 6.74	\$ 6.72	\$ 5.40
Discontinued operations	-	-	.19
NET EARNINGS PER COMMON SHARE- BASIC	\$ 6.74	\$ 6.72	\$ 5.59
DILUTED EARNINGS PER COMMON SHARE			
Continuing operations	\$ 6.55	\$ 6.54	\$ 5.31
Discontinued operations	-	-	.18
NET EARNINGS PER COMMON SHARE- ASSUMING DILUTION	\$ 6.55	\$ 6.54	\$ 5.49

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET
THE BLACK & DECKER CORPORATION AND SUBSIDIARIES
(MILLIONS OF DOLLARS)

DECEMBER 31,	2006	2005
ASSETS		
Cash and cash equivalents	\$ 233.3	\$ 967.6
Trade receivables, less allowances of \$44.5 for 2006 and \$45.1 for 2005	1,149.6	1,130.6
Inventories	1,063.5	1,049.1
Other current assets	257.0	200.1
TOTAL CURRENT ASSETS	2,703.4	3,347.4
PROPERTY, PLANT, AND EQUIPMENT	622.2	668.8
GOODWILL	1,195.6	1,115.7
OTHER ASSETS	726.5	710.5
	\$5,247.7	\$5,842.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term borrowings	\$ 258.9	\$ 566.9
Current maturities of long-term debt	150.2	155.3
Trade accounts payable	458.5	466.8
Other current liabilities	912.0	1,061.2
TOTAL CURRENT LIABILITIES	1,779.6	2,250.2
LONG-TERM DEBT	1,170.3	1,030.3
DEFERRED INCOME TAXES	197.6	188.5
POSTRETIREMENT BENEFITS	482.4	402.0
OTHER LONG-TERM LIABILITIES	454.2	408.2
STOCKHOLDERS' EQUITY		
Common stock (outstanding: December 31, 2006– 66,734,843 shares; December 31, 2005– 77,357,370 shares)	33.4	38.7
Capital in excess of par value	–	398.8
Retained earnings	1,473.0	1,511.4
Accumulated other comprehensive income (loss)	(342.8)	(385.7)
TOTAL STOCKHOLDERS' EQUITY	1,163.6	1,563.2
	\$5,247.7	\$5,842.4

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THE BLACK & DECKER CORPORATION AND SUBSIDIARIES
(DOLLARS IN MILLIONS EXCEPT PER SHARE DATA)

	OUTSTANDING COMMON SHARES	PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL STOCKHOLDERS' EQUITY
BALANCE AT DECEMBER 31, 2003	77,933,464	\$39.0	\$ 615.2	\$ 689.8	\$ (452.2)	\$ 891.8
Comprehensive income (loss):						
Net earnings	-	-	-	445.6	-	445.6
Net gain on derivative instruments (net of tax)	-	-	-	-	4.9	4.9
Minimum pension liability adjustment (net of tax)	-	-	-	-	49.4	49.4
Foreign currency translation adjustments, less effect of hedging activities (net of tax)	-	-	-	-	95.8	95.8
Write-off of accumulated foreign currency translation adjustments due to sale of businesses	-	-	-	-	(28.7)	(28.7)
Comprehensive income	-	-	-	445.6	121.4	567.0
Cash dividends on common stock (\$0.84 per share)	-	-	-	(67.5)	-	(67.5)
Common stock issued under stock-based plans (net of forfeitures)	4,227,797	2.0	214.6	-	-	216.6
Purchase and retirement of common stock	(66,100)	-	(3.6)	-	-	(3.6)
BALANCE AT DECEMBER 31, 2004	82,095,161	41.0	826.2	1,067.9	(330.8)	1,604.3
Comprehensive income (loss):						
Net earnings	-	-	-	532.1	-	532.1
Net gain on derivative instruments (net of tax)	-	-	-	-	34.8	34.8
Minimum pension liability adjustment (net of tax)	-	-	-	-	15.9	15.9
Foreign currency translation adjustments, less effect of hedging activities (net of tax)	-	-	-	-	(89.1)	(89.1)
Write-off of accumulated foreign currency translation adjustments due to sale of businesses	-	-	-	-	(16.5)	(16.5)
Comprehensive income	-	-	-	532.1	(54.9)	477.2
Cash dividends on common stock (\$1.12 per share)	-	-	-	(88.6)	-	(88.6)
Common stock issued under stock-based plans (net of forfeitures)	1,538,909	.8	95.2	-	-	96.0
Purchase and retirement of common stock	(6,276,700)	(3.1)	(522.6)	-	-	(525.7)
BALANCE AT DECEMBER 31, 2005	77,357,370	38.7	398.8	1,511.4	(385.7)	1,563.2
Comprehensive income (loss):						
Net earnings	-	-	-	486.1	-	486.1
Net gain on derivative instruments (net of tax)	-	-	-	-	(8.8)	(8.8)
Minimum pension liability adjustment (net of tax)	-	-	-	-	80.5	80.5
Foreign currency translation adjustments, less effect of hedging activities (net of tax)	-	-	-	-	70.3	70.3
Comprehensive income	-	-	-	486.1	142.0	628.1
Adoption of FASB Statement No. 158 (net of tax)	-	-	-	-	(99.1)	(99.1)

Cash dividends on common stock (\$1.52 per share)	-	-	-	(109.1)	-	(109.1)
Common stock issued under stock-based plans (net of forfeitures)	1,131,173	.6	75.9	-	-	76.5
Purchase and retirement of common stock	(11,753,700)	(5.9)	(474.7)	(415.4)	-	(896.0)
BALANCE AT DECEMBER 31, 2006	66,734,843	\$33.4	\$ -	\$1,473.0	\$ (342.8)	\$ 1,163.6

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
THE BLACK & DECKER CORPORATION AND SUBSIDIARIES
(MILLIONS OF DOLLARS)

YEAR ENDED DECEMBER 31,	2006	2005	2004
OPERATING ACTIVITIES			
Net earnings	\$ 486.1	\$ 532.1	\$ 445.6
Adjustments to reconcile net earnings to cash flow from operating activities of continuing operations:			
Earnings of discontinued operations	–	–	(2.2)
Loss (gain) on sale of discontinued operations (net of impairment charge)	–	.1	(12.7)
Non-cash charges and credits:			
Depreciation and amortization	154.9	150.6	142.5
Stock-based compensation	29.2	30.1	34.4
Other	.9	(6.4)	(3.4)
Changes in selected working capital items (net of effects of businesses acquired or divested):			
Trade receivables	36.1	(128.5)	1.3
Inventories	57.5	(105.5)	(66.7)
Trade accounts payable	(25.1)	12.3	(39.9)
Other current liabilities	(180.8)	61.7	55.8
Restructuring spending	(1.7)	(13.6)	(25.0)
Other assets and liabilities	65.6	76.5	71.8
CASH FLOW FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS	622.7	609.4	601.5
CASH FLOW FROM OPERATING ACTIVITIES OF DISCONTINUED OPERATIONS	–	4.7	3.1
CASH FLOW FROM OPERATING ACTIVITIES	622.7	614.1	604.6
INVESTING ACTIVITIES			
Capital expenditures	(104.6)	(111.1)	(117.8)
Proceeds from disposal of assets	14.7	12.7	26.0
Purchase of business, net of cash acquired	(158.5)	–	(804.6)
Reduction in purchase price of previously acquired business	16.1	10.4	–
Proceeds from sale of business, net of cash transferred	–	33.6	–
Proceeds from sale of discontinued operations, net of cash transferred	–	17.2	77.5
Investing activities of discontinued operations	–	(.4)	(1.2)
Cash inflow from hedging activities	1.4	15.9	7.2
Cash outflow from hedging activities	(14.8)	(13.4)	(7.9)
Other investing activities, net	4.7	.5	1.2
CASH FLOW FROM INVESTING ACTIVITIES	(241.0)	(34.6)	(819.6)
FINANCING ACTIVITIES			
Net(decrease) increase in short-term borrowings	(309.3)	565.6	(3.4)
Repayment of preferred stock of subsidiary	–	(136.0)	–
Proceeds from long-term debt (net of debt issue cost of \$2.4 for 2006 and 2004)	296.4	–	295.4
Payments on long-term debt	(155.1)	(.5)	(.6)
Purchase of common stock	(896.0)	(525.7)	(3.6)
Issuance of common stock	48.2	69.9	186.1
Cash dividends	(109.1)	(88.6)	(67.5)
CASH FLOW FROM FINANCING ACTIVITIES	(1,124.9)	(115.3)	406.4
Effect of exchange rate changes on cash	8.9	(11.0)	14.8
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(734.3)	453.2	206.2
Cash and cash equivalents at beginning of year	967.6	514.4	308.2
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 233.3	\$ 967.6	\$ 514.4

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THE BLACK & DECKER CORPORATION AND SUBSIDIARIES

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The Consolidated Financial Statements include the accounts of the Corporation and its subsidiaries. Intercompany transactions have been eliminated.

Reclassifications: Certain prior years' amounts in the Consolidated Financial Statements have been reclassified to conform to the presentation used in 2006.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

Revenue Recognition: Revenue from sales of products is recognized when title passes, which occurs either upon shipment or upon delivery based upon contractual terms. The Corporation recognizes customer program costs, including customer incentives such as volume or trade discounts, cooperative advertising and other sales related discounts, as a reduction to sales.

Foreign Currency Translation: The financial statements of subsidiaries located outside of the United States, except those subsidiaries operating in highly inflationary economies, generally are measured using the local currency as the functional currency. Assets, including goodwill, and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. The resultant translation adjustments are included in accumulated other comprehensive income (loss), a separate component of stockholders' equity. Income and expense items are translated at average monthly rates of exchange. Gains and losses from foreign currency transactions of these subsidiaries are included in net earnings. For subsidiaries operating in highly inflationary economies, gains and losses from balance sheet translation adjustments are included in net earnings.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition.

Concentration of Credit: The Corporation sells products and services to customers in diversified industries and geographic regions and, therefore, has no significant concentrations of credit risk other than with two major customers. As of December 31, 2006, approximately 30% of the Corporation's trade receivables were due from two large home improvement retailers.

The Corporation continuously evaluates the creditworthiness of its customers and generally does not require collateral.

Inventories: Inventories are stated at the lower of cost or market. The cost of United States inventories is based primarily on the last-in, first-out (LIFO) method; all other inventories are based on the first-in, first-out (FIFO) method.

Property and Depreciation: Property, plant, and equipment is stated at cost. Depreciation is computed generally on the straight-line method. Estimated useful lives range from 10 years to 50 years for buildings and 3 years to 15 years for machinery and equipment. The Corporation capitalizes improvements that extend the useful life of an asset. Repair and maintenance costs are expensed as incurred.

Goodwill and Other Intangible Assets: Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. The Corporation accounts for goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to an impairment test on an annual basis, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Other intangible assets are amortized over their estimated useful lives.

The Corporation assesses the fair value of its reporting units for its goodwill impairment tests based upon a discounted cash flow methodology. Those estimated future cash flows – which are based upon historical results and current projections – are discounted at a rate corresponding to a “market” rate. If the carrying amount of the reporting unit exceeds the estimated fair value determined through that discounted cash flow methodology, goodwill impairment may be present. The Corporation would measure the goodwill

impairment loss based upon the fair value of the underlying assets and liabilities of the reporting unit, including any unrecognized intangible assets, and estimate the implied fair value of goodwill. An impairment loss would be recognized to the extent that a reporting unit's recorded goodwill exceeded the implied fair value of goodwill.

The Corporation performed its annual impairment test in the fourth quarters of 2006, 2005, and 2004. No impairment was present upon performing these impairment tests. The Corporation cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on the Corporation's customer base, or a material negative change in its relationships with significant customers.

Product Development Costs: Costs associated with the development of new products and changes to existing products are charged to operations as incurred. Product development costs were \$139.4 million in 2006, \$133.8 million in 2005, and \$118.6 million in 2004.

Shipping and Handling Costs: Shipping and handling costs represent costs associated with shipping products to customers and handling finished goods. Included in selling, general, and administrative expenses are shipping and handling costs of \$338.8 million in 2006, \$339.2 million in 2005, and \$278.1 million in 2004. Freight charged to customers is recorded as revenue.

Advertising and Promotion: Advertising and promotion expense, which is expensed as incurred, was \$182.4 million in 2006, \$193.6 million in 2005, and \$174.9 million in 2004.

Product Warranties: Most of the Corporation's products in the Power Tools and Accessories segment and Hardware and Home Improvement segment carry a product warranty. That product warranty, in the United States, generally provides that customers can return a defective product during the specified warranty period following purchase in exchange for a replacement product or repair at no cost to the consumer. Product warranty arrangements outside the United States vary depending upon local market conditions and laws and regulations. The Corporation accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred.

Postretirement Benefits: Pension plans, which cover substantially all of the Corporation's employees in North America (if hired before 2007), Europe, and the United Kingdom (if hired before 2005), consist primarily of non-contributory defined benefit plans. The defined benefit plans are funded in conformity with the funding requirements of applicable government regulations. Generally, benefits are based on age, years of service, and the level of compensation during the final years of employment. Prior service costs for defined benefit plans generally are amortized over the estimated remaining service periods of employees.

Certain employees are covered by defined contribution plans. The Corporation's contributions to these plans are based on a percentage of employee compensation or employee contributions. These plans are funded on a current basis.

In addition to pension benefits, certain postretirement medical, dental, and life insurance benefits are provided to most United States retirees who retired before 1994. Most current United States employees are eligible for postretirement medical and dental benefits from their date of retirement to age 65. Retirees in other countries generally are covered by government-sponsored programs.

The Corporation uses the corridor approach in the valuation of defined benefit plans and other postretirement benefits. The corridor approach defers all actuarial gains and losses resulting from variances between actual results and economic estimates or actuarial assumptions. For defined benefit pension plans, these unrecognized gains and losses are amortized when the net gains and losses exceed 10% of the greater of the market-related value of plan assets or the projected benefit obligation at the beginning of the year. For other postretirement benefits, amortization occurs when the net gains and losses exceed 10% of the accumulated postretirement benefit obligation at the beginning of the year. The amount in excess of the corridor is amortized over the average remaining service period to retirement date of active plan participants or, for retired participants, the average remaining life expectancy.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires two major changes to accounting for defined benefit and other postretirement plans, with two different effective dates. The first requirement of SFAS No. 158, which the Corpora-

tion adopted as of December 31, 2006, requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or a liability in the balance sheet, with changes in the funded status recorded through comprehensive income in the year in which those changes occur. The impact of the adoption of SFAS No. 158 is more fully described in Note 13.

The second requirement of SFAS No. 158, which is effective for the Corporation as of December 31, 2008, requires that the funded status be measured as of an entity's year-end balance sheet date rather than as of an earlier date as currently permitted. The Corporation currently uses a measurement date of September 30 for the majority of its defined benefit pension and postretirement plans.

Stock-Based Compensation: In December 2004, the FASB issued SFAS No. 123 (revised 2004) (SFAS No. 123R), *Share-Based Payment*. This Statement revised SFAS No. 123 by eliminating the option to account for employee stock options under Accounting Principles Board Opinion No. 25 (APB No. 25) and requires companies to recognize the cost of employee services in exchange for awards of equity instruments based on grant-date fair value of those awards (the "fair-value-based" method). Stock-based compensation expense is recognized on a straight-line basis over the requisite service period of the award, which is generally the vesting period. The Corporation determines the fair value of its stock options using the Black-Scholes option valuation model, which incorporates assumptions such as expected option life, interest rate, volatility, and dividend yield. The Corporation determines the fair value of its restricted stock based on the fair value of its common stock at the date of grant.

SFAS No. 123R permitted public companies to adopt its requirement using one of two methods. The Corporation adopted SFAS No. 123R, effective January 1, 2006, under the modified retrospective method. The modified retrospective method permits entities to restate all prior periods presented based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures. All prior periods were adjusted to give effect to the fair-value-based method of accounting for awards granted on or after January 1, 1995.

The impact of adopting SFAS No. 123R, as compared to if the Corporation had continued to account for share-based compensation under APB No. 25, decreased the captions noted below for the years ended December 31, 2006, 2005, and 2004, as follows:

(Dollars in Millions, Except Per Share Data)	2006	2005	2004
Earnings from continuing operations before income taxes	\$ (16.3)	\$ (18.2)	\$ (16.0)
Net earnings from continuing operations	(10.6)	(11.8)	(10.4)
Net earnings	(10.6)	(11.8)	(10.4)
Basic earnings per share	\$ (.15)	\$ (.15)	\$ (.13)
Diluted earnings per share	\$ (.14)	\$ (.15)	\$ (.10)

Prior to the adoption of SFAS No. 123R, the Corporation presented all tax benefits of deductions resulting from the exercise of options or vesting of other stock-based arrangements as operating cash flows in the Consolidated Statement of Cash Flows. SFAS No. 123R requires the cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for share-based arrangements to be classified as financing cash flows. The Corporation has recognized \$9.7 million, \$13.9 million, and \$14.5 million as a financing cash flow, within the caption "Issuance of common stock", for the years ended December 31, 2006, 2005, and 2004, respectively, that would have been recognized as an operating cash flow prior to the adoption of SFAS No. 123R.

The following balances as of December 31, 2003, have been restated to recognize stock-based compensation expense for fiscal years 1995 to 2003, in million of dollars:

	Capital in Excess of Par Value	Retained Earnings
As previously reported	\$486.7	\$ 773.0
Adjustment for change in accounting	128.5	(83.2)
As adjusted	\$615.2	\$ 689.8

Prior to the adoption of SFAS No. 123R net deferred tax assets as of December 31, 2005, were \$116.2 million; an adjustment of \$25.8 million was recognized for the change in accounting which resulted in net deferred tax assets of \$142.0 million as of that date.

Derivative Financial Instruments: The Corporation is exposed to market risks arising from changes in interest rates. With products and services marketed in over 100 countries and with manufacturing sites in 10 countries, the Corporation also is exposed to risks arising from changes in foreign currency rates. The Corporation uses derivatives principally in the management of interest rate and foreign currency exposure. It does not utilize derivatives that contain leverage features. On the date on which the Corporation enters into a derivative, the derivative is designated as a hedge of the identified exposure. The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. In this documentation, the Corporation specifically identifies the asset, liability, firm commitment, forecasted transaction, or net investment that has been designated as the hedged item and states how the hedging instrument is expected to reduce the risks related to the hedged item. The Corporation measures effectiveness of its hedging relationships both at hedge inception and on an ongoing basis.

For each derivative instrument that is designated and qualifies as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values. For each derivative instrument that is designated and qualifies as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. For hedged forecasted transactions, hedge accounting is discontinued if the forecasted transaction is no longer probable of occurring, in which case previously deferred hedging gains or losses would be recorded to earnings immediately. For derivatives that are designated and qualify as hedges of net investments in subsidiaries located outside the United States, the gain or loss (net of tax), is reported in accumulated other comprehensive income (loss) as part of the cumulative translation adjustment to the extent the derivative is effective. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

Interest Rate Risk Management: The Corporation has designated each of its outstanding interest rate swap agreements as fair value hedges of the underlying fixed rate obligation. The fair value of the interest rate swap agreements is recorded in other current assets, other assets, other current liabilities, or other long-term liabilities with a corresponding increase or decrease in the fixed rate obligation. The changes in the fair value of the interest rate swap agreements and the underlying fixed rate obligations are recorded as equal and offsetting unrealized gains and losses in interest expense in the Consolidated Statement of Earnings. The Corporation has structured all existing interest rate swap agreements to be 100% effective. As a result, there is no current impact to earnings resulting from hedge ineffectiveness. Gains or losses resulting from the early termination of interest rate swaps are deferred as an increase or decrease to the carrying value of the related debt and amortized as an adjustment to the yield of the related debt instrument over the remaining period originally covered by the swap.

Foreign Currency Management: The fair value of foreign currency-related derivatives are generally included in the Consolidated Balance Sheet in other current assets and other current liabilities. The earnings impact of cash flow hedges relating to forecasted purchases of inventory is reported in cost of goods sold to match the underlying transaction being hedged. Realized and unrealized gains and losses on these instruments are deferred in accumulated other comprehensive income (loss) until the underlying transaction is recognized in earnings.

The earnings impact of cash flow hedges relating to the variability in cash flows associated with foreign currency-denominated assets and liabilities is reported in cost of goods sold, selling, general, and administrative expenses, or other expense (income), depending on the nature of the assets or liabilities being hedged. The amounts deferred in accumulated other comprehensive income (loss) associated with these instruments generally relate to foreign currency spot-rate to forward-rate differentials and are recognized in earnings over the term of the hedge. The discount or premium relating to cash flow hedges associated with foreign currency-denominated assets and liabilities is recognized in net interest expense over the life of the hedge.

New Accounting Pronouncements: In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 provides guidance for the recognition, derecognition and measurement in financial statements of tax positions taken in previously filed tax returns or tax positions expected to be taken in tax returns. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 requires that a liability created for unrecognized tax benefits shall be presented as a liability and not combined with deferred tax liabilities or assets. The application of FIN 48 may also affect the tax bases of assets and liabilities and therefore may change or create deferred tax liabilities or assets. The Corporation believes that the adoption of FIN 48 will require the reclassification of certain deferred tax liabilities or assets to a liability for tax uncertainties. FIN 48 permits an entity to recognize interest related to tax uncertainties as either income taxes or interest expense. FIN 48 also permits an entity to recognize penalties related to tax uncertainties as either income tax expense or within other expense classifications. The Corporation has recognized interest and penalties, if any, related to tax uncertainties as income tax expense and will continue this treatment upon adoption of FIN 48. The Corporation will be required to adopt FIN 48 as of January 1, 2007, with any cumulative effect of the change in accounting principles recorded as an adjustment to opening retained earnings. The Corporation is currently evaluating the impact of its adoption of FIN 48 and has not yet determined the effect on its earnings or financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement clarifies how to measure fair value as permitted under other accounting pronouncements but does not require any new fair value measurements. However, for some entities, the application of this statement will change current practice. The Corporation will be required to adopt SFAS No. 157 as of January 1, 2008. The Corporation is currently evaluating the impact of SFAS No. 157 and has not yet determined the effect on its earnings or financial position.

NOTE 2: ACQUISITIONS

Effective March 1, 2006, the Corporation acquired Vector Products, Inc. (Vector). The cash purchase price for the transaction was \$158.5 million, net of cash acquired of \$.1 million and including transaction costs of \$.9 million. The addition of Vector to the Corporation's Power Tools and Accessories segment allows the Corporation to offer customers a broader range of products.

The transaction has been accounted for in accordance with SFAS No. 141, *Business Combinations*, and accordingly, the financial position and results of operations have been included in the Corporation's Balance Sheet and Statement of Earnings since the date of acquisition.

The Corporation has not yet obtained all information, including, but not limited to, finalization of independent appraisals, required to complete the purchase price allocation related to the acquisition of Vector. The final allocation will be completed in 2007. The initial purchase price allocation of the acquired business, based on preliminary appraisal data and management's estimates at the date of acquisition, in millions of dollars, is as follows:

Accounts receivable	\$ 18.8
Inventories	42.5
Property and equipment	2.6
Goodwill	84.2
Intangible assets	24.5
Other current and long-term assets	9.1
Total assets acquired	181.7
Accounts payable and accrued liabilities	16.6
Other liabilities	6.6
Total liabilities	23.2
Fair value of net assets acquired	\$158.5

The Corporation does not believe that the goodwill and intangible assets recognized will be deductible for income tax purposes.

Prior to the date of the acquisition of Vector and during 2006, the Corporation identified opportunities to integrate the business into its existing Power Tools and Accessories segment. Subsequent to the acquisition, the Corporation approved integration actions relating to the acquired business in the amount of \$1.3 million. These actions principally reflect severance costs associated with administrative and distribution functions of the acquired business as well as the cost of lease and other contractual obligations for which no future benefit will be realized. During 2006, the Corporation utilized \$.3 million of this reserve.

Effective after the close of business on October 2, 2004, the Corporation acquired the Porter-Cable

and Delta Tools Group from Pentair, Inc. The Porter-Cable and Delta Tools Group included the Porter-Cable, Delta, DeVilbiss Air Power Company, Oldham Saw, and FLEX businesses. The addition of the Porter-Cable and Delta Tools Group to the Corporation's Power Tools and Accessories segment allowed the Corporation to offer customers a broader range of products. The cash purchase price for the transaction was \$767.7 million, net of cash acquired of \$8.3 million and including transaction costs of \$5.7 million. That \$767.7 million purchase price is net of purchase price reduction of \$10.4 million and \$16.1 million, received in 2005 and 2006, respectively.

This transaction has been accounted for in accordance with SFAS No.141, *Business Combinations*, and accordingly, the financial position and results of operations have been included in the Corporation's operations since the date of acquisition.

The purchase price allocation of the acquired businesses, based upon independent appraisals and management's estimates at the date of acquisition, in millions of dollars, is as follows:

Accounts receivable	\$ 202.5
Inventories	172.3
Property and equipment	124.6
Goodwill	335.7
Intangible assets	189.4
Other current and long-term assets	44.2
Total assets acquired	1,068.7
Accounts payable and accrued liabilities	225.9
Other liabilities	75.1
Total liabilities	301.0
Fair value of net assets acquired	\$ 767.7

Prior to the date of the acquisition of the Porter-Cable and Delta Tools Group and during 2004, the Corporation identified opportunities to restructure the acquired businesses as well as to integrate these businesses into its existing Power Tools and Accessories segment. Subsequent to the acquisition, the Corporation approved integration actions relating to the acquired businesses. These actions principally reflect severance costs associated with administrative and manufacturing actions related to the acquired businesses, including the closure of three manufacturing facilities, as well as the cost of lease and other contractual obligations for which no future benefit would be realized.

A summary of integration activity relating to the Porter-Cable and Delta Tools Group during 2005 and 2006, in millions of dollars, is set forth below:

	SEVERANCE BENEFITS	OTHER CHARGES	TOTAL
Integration reserve at December 31, 2004	\$ 8.7	\$ 6.2	\$ 14.9
Adjustments to previously provided reserves	(7)	(3)	(1.0)
Utilization of reserves:			
Cash	(5.8)	(3.4)	(9.2)
Integration reserve at December 31, 2005	2.2	2.5	4.7
Utilization of reserves:			
Cash	(1.6)	(2.5)	(4.1)
Integration reserve at December 31, 2006	\$.6	\$ -	\$.6

The Corporation substantially completed these restructuring actions during 2006.

In November 2005, the Corporation completed the sale of the FLEX business of the acquired Porter-Cable and Delta Tools Group. The effect of the sale was not material to the Corporation.

NOTE 3: DISCONTINUED OPERATIONS

The Corporation's former European security hardware business is classified as discontinued operations. The European security hardware business consisted of the NEMEF, Corbin, and DOM businesses. In November 2005, the Corporation completed the sale of the DOM security hardware business and received cash proceeds, net of cash transferred, of \$17.2 million. In January 2004, the Corporation completed the sale of the NEMEF and Corbin businesses and received cash proceeds, net of cash transferred, of \$77.5 million.

During 2005, the Corporation recognized a \$.1 million loss on the sale of the DOM security hardware business. During 2004, the Corporation recognized a \$12.7 million net gain on the sale of these discontinued operations (the "net gain on sale of discontinued operations"). That net gain consisted of a \$37.1 million gain on the sale of the NEMEF and Corbin businesses, less a \$24.4 million goodwill impairment charge associated with the DOM business. That goodwill impairment charge was determined as the excess of the carrying value of goodwill associated with the DOM business over its implied fair value.

Sales and earnings before income taxes of the discontinued operations for each year, in millions of dollars, were as follows:

	2006	2005	2004
Sales	\$ –	\$60.1	\$66.2
Earnings before income taxes	–	.5	3.1

The results of the discontinued operations do not reflect any expense for interest allocated by or management fees charged by the Corporation.

NOTE 4: INVENTORIES

The classification of inventories at the end of each year, in millions of dollars, was as follows:

	2006	2005
FIFO cost		
Raw materials and work-in-process	\$ 284.4	\$ 257.5
Finished products	769.6	774.0
	1,054.0	1,031.5
Adjustment to arrive at LIFO inventory value	9.5	17.6
	\$1,063.5	\$1,049.1

The cost of United States inventories stated under the LIFO method was approximately 54% and 58% of the value of total inventories at December 31, 2006 and 2005, respectively.

NOTE 5: PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at the end of each year, in millions of dollars, consisted of the following:

	2006	2005
Property, plant, and equipment at cost:		
Land and improvements	\$ 41.6	\$ 44.1
Buildings	311.9	309.7
Machinery and equipment	1,382.8	1,348.1
	1,736.3	1,701.9
Less accumulated depreciation	1,114.1	1,033.1
	\$ 622.2	\$ 668.8

Depreciation expense was \$146.2 million, \$146.0 million and \$140.8 million for the years ended December 31, 2006, 2005, and 2004, respectively.

NOTE 6: GOODWILL AND OTHER IDENTIFIED INTANGIBLE ASSETS

The changes in the carrying amount of goodwill by reportable business segment, in millions of dollars, were as follows:

	POWER TOOLS & ACCESSORIES	HARDWARE & HOME IMPROVEMENT	FASTENING & ASSEMBLY SYSTEMS	TOTAL
Goodwill at January 1, 2005	\$ 417.1	\$ 463.9	\$ 303.0	\$1,184.0
Activity associated with prior year acquisition	(31.6)	(.3)	–	(31.9)
Sale of business	(15.2)	–	–	(15.2)
Currency translation adjustment	(1.3)	–	(19.9)	(21.2)
Balance at December 31, 2005	369.0	463.6	283.1	1,115.7
Acquisition	84.2	–	–	84.2
Activity associated with prior year acquisition	(17.0)	–	–	(17.0)
Currency translation adjustment	.9	.2	11.6	12.7
Balance at December 31, 2006	\$ 437.1	\$ 463.8	\$ 294.7	\$1,195.6

The carrying amount of acquired intangible assets included in other assets at the end of each year, in million of dollars, was as follows:

	2006	2005
Customer relationships (net of accumulated amortization of \$5.1 in 2006 and \$1.4 in 2005)	\$ 54.2	\$ 36.0
Technology and patents (net of accumulated amortization of \$4.9 in 2006 and \$2.8 in 2005)	17.1	16.6
Trademarks and trade names (net of accumulated amortization of \$1.9 in 2006 and \$.4 in 2005)	207.0	208.5
Total intangibles, net	\$278.3	\$261.1

Trademarks and trade names include indefinite-lived assets of \$193.9 million at December 31, 2006 and 2005, respectively.

Expense associated with the amortization of intangible assets in 2006, 2005, and 2004 was \$7.3 million, \$3.5 million, and \$1.0 million, respectively. At December 31, 2006, the weighted-average amortization periods were 15 years for customer relationships, 10 years for technology and patents, and 10 years for trademarks and trade names. The estimated future amortization expense for identifiable intangible assets during each of the next five years is \$7.7 million.

NOTE 7: OTHER CURRENT LIABILITIES

Other current liabilities at the end of each year, in millions of dollars, included the following:

	2006	2005
Trade discounts and allowances	\$218.9	\$ 242.8
Employee benefits	153.9	157.1
Salaries and wages	80.6	107.8
Advertising and promotion	47.7	75.1
Warranty	60.2	57.3
Income taxes, including deferred taxes	35.2	101.0
All other	315.5	320.1
	\$912.0	\$1,061.2

All other at December 31, 2006 and 2005, consisted primarily of accruals for foreign currency derivatives, environmental exposures, interest, insurance, and taxes other than income taxes.

The following provides information with respect to the Corporation's warranty accrual, in millions of dollars:

	2006	2005
Warranty reserve at January 1	\$ 57.3	\$ 55.2
Accruals for warranties issued during the period and changes in estimates related to pre-existing warranties	116.4	116.4
Settlements made	(118.1)	(111.2)
Additions due to acquisition	3.0	-
Reduction due to sale of business	-	(1.5)
Currency translation adjustments	1.6	(1.6)
Warranty reserve at December 31	\$ 60.2	\$ 57.3

In December 2000, a subsidiary of the Corporation issued preferred shares to private investors, redeemable in December 2005. Holders of the subsidiary's preferred shares were entitled to annual cash dividends of \$10.7 million. The \$10.7 million dividends on those preferred shares were classified as interest expense in 2004 and 2005. The preferred shares were redeemed in December 2005 via a \$136.0 million payment to the private investors and the relinquishment of a liquid asset in the amount of \$50.0 million that was previously included in other current assets.

NOTE 8: SHORT-TERM BORROWINGS

Short-term borrowings in the amounts of \$258.9 million and \$566.9 million at December 31, 2006 and 2005, respectively, consisted primarily of borrowings under the terms of the Corporation's commercial paper program, uncommitted lines of credit, or other short-term borrowing arrangements. The weighted-average interest rate on short-term borrowings outstanding at December 31, 2006 and 2005, was 5.43% and 4.56%, respectively.

In November 2002, the Corporation entered into a \$500 million agreement under which it may issue commercial paper at market rates with maturities of up to 365 days from the date of issue. In September 2004, the Corporation increased the maximum amount authorized for issuance under its commercial paper program from \$500 million to \$1.0 billion. There was \$251.4 million and \$467.2 million outstanding under this agreement at December 31, 2006 and 2005, respectively.

In April 2001, the Corporation entered into a \$1.0 billion unsecured revolving credit facility that would have expired in April 2006. In October 2004, the Corporation replaced its \$1.0 billion unsecured revolving credit facility (the Former Credit Facility) that would have expired in April 2006 with a \$1.0 billion unsecured revolving credit facility (the Credit Facility) that expires in October 2009. The amount available for borrowing under the Credit Facility at December 31, 2006 and 2005, was \$748.6 million and \$532.8 million, respectively.

The average borrowings outstanding under the Corporation's Credit Facility and commercial paper program during 2006 and 2005 were \$509.6 million and \$213.8 million, respectively.

Under the Credit Facility, the Corporation has the option of borrowing at LIBOR plus a specified percentage, or at other variable rates set forth therein. The Credit Facility provides that the interest rate margin over LIBOR, initially set at .375%, will increase (by a maximum amount of .625%) or decrease (by a maximum amount of .115%) based

upon changes in the ratings of the Corporation's long-term senior unsecured debt.

In addition to interest payable on the principal amount of indebtedness outstanding from time to time under the Credit Facility, the Corporation is required to pay an annual facility fee, equal to .125%, of the amount of the Credit Facility's commitment, whether used or unused. The Corporation is also required to pay a utilization fee, equal to .125%, applied to the outstanding balance when borrowings under the Credit Facility exceed 50% of the Credit Facility. The Credit Facility provides that both the facility fee and the utilization fee will increase or decrease based upon changes in the ratings of the Corporation's long-term senior unsecured debt.

The Credit Facility includes various customary covenants. Some of the covenants limit the ability of the Corporation and its subsidiaries to pledge assets or incur liens on assets. Other financial covenants require the Corporation to maintain a specified leverage ratio and interest coverage ratio. As of December 31, 2006, the Corporation was in compliance with all terms and conditions of the Credit Facility.

Under the Former Credit Facility, the Corporation had the option of borrowing at LIBOR plus a specified percentage, or at other variable rates set forth therein. The Former Credit Facility provided that the interest rate margin over LIBOR, initially set at .475%, would increase or decrease based upon changes in the ratings of the Corporation's long-term senior unsecured debt. The Former Credit Facility provided for an interest rate margin over LIBOR of .475% during 2004. In addition to the interest payable on the principal amount of indebtedness outstanding from time to time under the Former Credit Facility, the Corporation was required to pay an annual facility fee to each bank, equal to .150% and .125%, respectively, of the amount of each bank's commitment, whether used or unused. The Corporation was also required to pay a utilization fee under the Former Credit Facility equal to .125%, applied to the outstanding balance when borrowings exceeded 50% of the facility. The Former Credit Facility provided that both the facility fee and the utilization fee would increase or decrease based upon changes in the ratings of the Corporation's senior unsecured debt.

Under the terms of uncommitted lines of credit at December 31, 2006, certain subsidiaries outside of the United States may borrow up to an additional \$504.6 million on such terms as may be mutually agreed. These arrangements do not have termination dates and are reviewed periodically. No material compensating balances are required or maintained.

NOTE 9: LONG-TERM DEBT

The composition of long-term debt at the end of each year, in millions of dollars, was as follows:

	2006	2005
7.0% notes due 2006	\$ —	\$ 154.6
6.55% notes due 2007	150.0	150.0
7.125% notes due 2011 (including discount of \$1.4 in 2006 and \$1.7 in 2005)	398.6	398.3
4.75% notes due 2014 (including discount of \$1.7 in 2006 and \$2.0 in 2005)	298.3	298.0
5.75% notes due 2016 (including discount of \$1.2 in 2006)	298.8	—
7.05% notes due 2028	150.0	150.0
Other loans due through 2009	.6	1.0
Fair value hedging adjustment	24.2	33.7
Less current maturities of long-term debt	(150.2)	(155.3)
	\$1,170.3	\$1,030.3

As more fully described in Note 1, at December 31, 2006 and 2005, the carrying amount of long-term debt and current maturities thereof includes \$24.2 million and \$33.7 million, respectively, relating to outstanding or terminated fixed-to-variable rate interest rate swaps agreements.

Indebtedness of subsidiaries in the aggregate principal amounts of \$341.5 million and \$867.8 million were included in the Consolidated Balance Sheet at December 31, 2006 and 2005, respectively, in short-term borrowings, current maturities of long-term debt, and long-term debt.

Principal payments on long-term debt obligations due over the next five years are as follows: \$150.2 million in 2007, \$.2 million in 2008, \$.1 million in 2009, \$ — in 2010, and \$400.0 million in 2011. Interest payments on all indebtedness were \$98.0 million in 2006, \$94.3 million in 2005, and \$77.2 million in 2004.

NOTE 10: DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation is exposed to market risks arising from changes in interest rates. With products and services marketed in over 100 countries and with manufacturing sites in 10 countries, the Corporation also is exposed to risks arising from changes in foreign exchange rates.

Credit Exposure: The Corporation is exposed to credit-related losses in the event of non-performance by counterparties to certain derivative financial instruments. The Corporation monitors the creditworthiness of the counterparties and presently does not expect default by any of the counterparties. The Corporation does not obtain collateral in connection with its derivative financial instruments.

The credit exposure that results from interest rate and foreign exchange contracts is the fair value of contracts with a positive fair value as of the reporting date. Some derivatives are not subject to credit exposures. The fair value of all financial instruments is summarized in Note 11.

Interest Rate Risk Management: The Corporation manages its interest rate risk, primarily through the use of interest rate swap agreements, in order to achieve a cost-effective mix of fixed and variable rate indebtedness. It seeks to issue debt opportunistically, whether at fixed or variable rates, at the lowest possible costs. The Corporation may, based upon its assessment of the future interest rate environment, elect to manage its interest rate risk associated with changes in the fair value of its indebtedness, or the future cash flows associated with its indebtedness, through the use of interest rate swaps.

The amounts exchanged by the counterparties to interest rate swap agreements normally are based upon the notional amounts and other terms, generally related to interest rates, of the derivatives. While notional amounts of interest rate swaps form part of the basis for the amounts exchanged by the counterparties, the notional amounts are not themselves exchanged and, therefore, do not represent a measure of the Corporation's exposure as an end user of derivative financial instruments.

The Corporation's portfolio of interest rate swap instruments at December 31, 2006 and 2005, consisted of \$400.0 million notional and \$525.0 million notional amounts of fixed-to-variable rate swaps with a weighted-average fixed rate receipt of 5.11% and 5.33%, respectively. The basis of the variable rate paid is LIBOR.

Credit exposure on the Corporation's interest rate derivatives at December 31, 2006 and 2005, was \$4.7 million and \$9.2 million, respectively. Deferred gains on the early termination of interest rate swaps were \$25.3 million and \$29.7 million at December 31, 2006 and 2005.

Foreign Currency Management: The Corporation enters into various foreign currency contracts in managing its foreign currency exchange risk. Generally, the foreign currency contracts have maturity dates of less than twenty-four months. The contractual amounts of foreign currency derivatives, principally forward exchange contracts and purchased options, generally are exchanged by the counterparties. The Corporation's foreign currency derivatives are designated to, and generally are denominated in the currencies of, the underlying exposures. To minimize the volatility of reported equity, the Corporation may hedge, on a limited basis, a portion of its net investment in subsidiaries located outside the United States through the use of foreign currency forward contracts and purchased foreign currency options.

The Corporation seeks to minimize its foreign currency cash flow risk and hedges its foreign currency transaction exposures (that is, currency exposures related to assets and liabilities) as well as certain forecasted foreign currency exposures. Hedges of forecasted foreign currency exposures principally relate to the cash flow risk relating to the sales of products manufactured or purchased in a currency different from that of the selling subsidiary. The Corporation hedges its foreign currency cash flow risk through the use of forward exchange contracts and, to a small extent, options. Some of the forward exchange contracts involve the exchange of two foreign currencies according to the local needs of the subsidiaries. Some natural hedges also are used to mitigate risks associated with transaction and forecasted exposures. The Corporation also responds to foreign exchange movements through various means, such as pricing actions, changes in cost structure, and changes in hedging strategies.

The following table summarizes the contractual amounts of forward exchange contracts as of December 31, 2006 and 2005, in millions of dollars, including details by major currency as of December 31, 2006. Foreign currency amounts were translated at current rates as of the reporting date. The "Buy" amounts represent the United States dollar equivalent of commitments to purchase currencies, and the "Sell" amounts represent the United States dollar equivalent of commitments to sell currencies.

AS OF DECEMBER 31, 2006	BUY	SELL
United States dollar	\$2,639.6	\$(1,854.2)
Pound sterling	1,338.1	(1,685.9)
Euro	917.2	(1,081.1)
Canadian dollar	—	(154.6)
Australian dollar	41.7	(53.8)
Czech koruna	58.6	—
Japanese yen	8.8	(33.7)
Swedish krona	78.5	(122.2)
Swiss franc	—	(15.2)
Norwegian krone	—	(30.8)
Danish krone	2.6	(31.7)
Other	11.3	(18.4)
Total	\$5,096.4	\$(5,081.6)

AS OF DECEMBER 31, 2005		
Total	\$2,950.5	\$(2,954.6)

No options to buy or sell currencies were outstanding at December 31, 2006.

Credit exposure on foreign currency derivatives as of December 31, 2006 and 2005, was \$32.7 million and \$18.2 million, respectively.

Hedge ineffectiveness and the portion of derivative gains and losses excluded from the assessment of hedge effectiveness related to the Corporation's cash flow hedges that were recorded to earnings during 2006, 2005, and 2004 were not significant.

Amounts deferred in accumulated other comprehensive income (loss) at December 31, 2006, that are expected to be reclassified into earnings during 2007 represent an after-tax loss of \$1.2 million. The amount expected to be reclassified into earnings in the next twelve months includes unrealized gains and losses related to open foreign currency contracts. Accordingly, the amount that is ultimately reclassified into earnings may differ materially.

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Significant differences can arise between the fair value and carrying amount of financial instruments that are recognized at historical cost amounts.

The following methods and assumptions were used by the Corporation in estimating fair value disclosures for financial instruments:

- Cash and cash equivalents, trade receivables, certain other current assets, short-term borrowings, and current maturities of long-term debt: The amounts reported in the Consolidated Balance Sheet approximate fair value.
- Long-term debt: Publicly traded debt is valued based on quoted market values. The fair value of other long-term debt is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Corporation for debt of the same remaining maturities.
- Interest rate hedges: The fair value of interest rate hedges reflects the estimated amounts that the Corporation would receive or pay to terminate the contracts at the reporting date.
- Foreign currency contracts: The fair value of forward exchange contracts and options is estimated using prices established by financial institutions for comparable instruments.

The following table sets forth, in millions of dollars, the carrying amounts and fair values of the Corporation's financial instruments, except for those noted above for which carrying amounts approximate fair values:

ASSETS (LIABILITIES) AS OF DECEMBER 31, 2006	CARRYING AMOUNT	FAIR VALUE
Non-derivatives:		
Long-term debt	\$ (1,170.3)	\$(1,149.0)
Derivatives relating to:		
Debt		
Assets	4.7	4.7
Liabilities	(6.0)	(6.0)
Foreign Currency		
Assets	32.7	32.7
Liabilities	(29.6)	(29.6)
ASSETS (LIABILITIES) AS OF DECEMBER 31, 2005	CARRYING AMOUNT	FAIR VALUE

Non-derivatives:

Long-term debt	\$ (1,030.3)	\$(1,039.0)
<hr/>		
Derivatives relating to:		
Debt		
Assets	9.2	9.2
Liabilities	(3.4)	(3.4)
Foreign Currency		
Assets	18.2	18.2
Liabilities	(23.9)	(23.9)
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NOTE 12: INCOME TAXES

Earnings from continuing operations before income taxes for each year, in millions of dollars, were as follows:

	2006	2005	2004
United States	\$295.7	\$400.0	\$294.5
Other countries	368.7	401.1	293.8
	\$664.4	\$801.1	\$588.3

Significant components of income taxes (benefits) from continuing operations for each year, in millions of dollars, were as follows:

	2006	2005	2004
Current:			
United States	\$135.4	\$219.6	\$ 90.2
Other countries	61.1	39.7	48.3
	196.5	259.3	138.5
Deferred:			
United States	(11.9)	5.8	19.9
Other countries	(6.3)	3.8	(8)
	(18.2)	9.6	19.1
	\$178.3	\$268.9	\$157.6

Income tax expense recorded directly as an adjustment to equity as a result of hedging activities was not significant in 2006, 2005, and 2004. Income tax benefits recorded directly as an adjustment to equity as a result of employee stock options were \$9.7 million, \$13.9 million, and \$12.1 million in 2006, 2005, and 2004, respectively.

Income tax payments were \$221.7 million in 2006, \$165.8 million in 2005, and \$89.5 million in 2004.

Deferred tax (liabilities) assets at the end of each year, in millions of dollars, were composed of the following:

	2006	2005
Deferred tax liabilities:		
Employee and postretirement benefits	\$(157.8)	\$(157.8)
Other	(42.1)	(36.7)
Gross deferred tax liabilities	(199.9)	(194.5)
Deferred tax assets:		
Tax loss carryforwards	129.0	116.3
Tax credit and capital loss carryforwards	50.8	50.8
Postretirement benefits	144.8	122.4
Stock-based compensation	36.4	36.8
Other	137.0	115.6
Gross deferred tax assets	498.0	441.9
Deferred tax asset valuation allowance	(117.8)	(105.4)
Net deferred tax assets	\$ 180.3	\$ 142.0

Deferred income taxes are included in the Consolidated Balance Sheet in other current assets, other assets, other current liabilities, and deferred income taxes. Other deferred tax assets principally relate to accrued liabilities that are not currently deductible.

During the year ended, December 31, 2006, the deferred tax asset valuation allowance increased by \$12.4 million. The increase was principally the result of tax losses generated by a subsidiary that cannot be utilized in the consolidated United States tax return.

Tax loss carryforwards at December 31, 2006, consisted of net operating losses expiring from 2007 to 2026.

The American Jobs Creation Act of 2004 (AJCA) introduced a special one-time dividends received deduction on the repatriation of certain foreign earnings to the United States, during a one-year period. The deduction resulted in an approximate 5.25% federal income tax rate on eligible repatriations of foreign earnings. During the fourth quarter of 2005, the Corporation's Chief Executive Officer and Board of Directors approved a domestic reinvestment plan as required by the AJCA. During the fourth quarter of 2005, the Corporation repatriated \$888.3 million of previously unremitted foreign earnings and recognized \$51.2 million of tax expense related to the repatriation.

At December 31, 2006, unremitted earnings of subsidiaries outside of the United States were approximately \$1.5 billion, on which no United States taxes had been provided. The Corporation's intention is to reinvest these earnings permanently or to repatriate the earnings only when possible to do so at minimal additional tax cost. It is not practicable to estimate the amount of additional taxes that might be payable upon repatriation of foreign earnings.

A reconciliation of income taxes at the federal statutory rate to the Corporation's income taxes for each year, both from continuing operations, in millions of dollars, is as follows:

	2006	2005	2004
Income taxes at federal statutory rate	\$232.5	\$280.4	\$205.9

Taxes associated with repatriation of foreign earnings	-	51.2	-
Lower effective taxes on earnings in other countries	(59.0)	(62.3)	(55.1)
Other— net	4.8	(4)	6.8
<hr/>			
Income taxes	\$178.3	\$268.9	\$157.6
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NOTE 13: POSTRETIREMENT BENEFITS

As disclosed in Note 1 of Notes to Consolidated Financial Statements, the Corporation adopted SFAS No. 158 effective December 31, 2006. The following table summarizes the impact of the adoption of SFAS No. 158 on the Consolidated Balance Sheet at December 31, 2006, in millions of dollars:

	PRIOR TO SFAS NO. 158 ADOPTION	IMPACT OF SFAS NO. 158 ADOPTION - INCREASE - (DECREASE)	AFTER SFAS NO. 158 ADOPTION
Prepaid pension costs	\$ 46.1	\$ (14.8)	\$ 31.3
Other assets	18.3	(18.3)	-
Pension liabilities	389.5	115.9	505.4
Accumulated other comprehensive loss	413.4	149.0	562.4

The following tables set forth the funded status of the defined benefit pension and postretirement

plans, and amounts recognized in the Consolidated Balance Sheet, in millions of dollars. As disclosed in Note 1, SFAS No. 158, adopted by the Corporation effective December 31, 2006, requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the balance sheet, with changes in the funded status recorded through other comprehensive income. Accordingly, the amounts presented in the table below for 2006 and 2005 utilize different accounting methodologies. The Corporation uses a measurement date of September 30 for the majority of its defined benefit pension and postretirement plans. Defined postretirement benefits consist of several unfunded health care plans that provide certain postretirement medical, dental, and life insurance benefits for most United States employees. The postretirement medical benefits are contributory and include certain cost-sharing features, such as deductibles and co-payments.

	2006			2005		
	PENSION BENEFITS PLANS IN THE UNITED STATES	PENSION BENEFITS PLANS OUTSIDE OF THE UNITED STATES	OTHER POST- RETIREMENT BENEFITS ALL PLANS	PENSION BENEFITS PLANS IN THE UNITED STATES	PENSION BENEFITS PLANS OUTSIDE OF THE UNITED STATES	OTHER POST- RETIREMENT BENEFITS ALL PLANS
CHANGE IN BENEFIT OBLIGATION						
Benefit obligation at beginning of year	\$1,045.7	\$ 757.1	\$ 103.8	\$ 994.8	\$ 733.1	\$ 144.6
Service cost	23.5	14.7	1.0	23.5	13.7	.8
Interest cost	58.4	38.4	5.9	57.9	37.5	8.4
Plan participants' contributions	-	1.6	3.5	-	1.6	6.9
Actuarial losses (gains)	9.7	(76.7)	(10.0)	23.0	74.9	(2.1)
Foreign currency exchange rate changes	-	90.0	.4	-	(76.1)	.2
Benefits paid	(62.7)	(31.1)	(15.1)	(62.5)	(29.8)	(21.9)
Plan amendments	.2	-	(.7)	14.7	2.2	(32.5)
Curtailments	-	-	-	(5.7)	-	(.6)
Benefit obligation at end of year	1,074.8	794.0	88.8	1,045.7	757.1	103.8
CHANGE IN PLAN ASSETS						
Fair value of plan assets at beginning of year	890.4	468.4	-	847.4	441.1	-
Actual return on plan assets	88.8	51.6	-	106.7	85.2	-
Expenses	(7.1)	(1.2)	-	(7.5)	(.4)	-
Benefits paid	(62.7)	(29.9)	(15.1)	(62.5)	(29.4)	(21.9)
Employer contributions	4.8	15.0	11.6	3.9	15.4	15.0
Contributions by plan participants	-	1.6	3.5	-	1.6	6.9
Acquisitions	-	-	-	2.4	-	-
Effects of currency exchange rates	-	60.5	-	-	(45.1)	-
Fair value of plan assets at end of year	914.2	566.0	-	890.4	468.4	-
Funded status	(160.6)	(228.0)	(88.8)	(155.3)	(288.7)	(103.8)
Contributions subsequent to measurement date	-	3.3	-	-	3.6	-
(Accrued) benefit cost at December 31, 2006	\$ (160.6)	\$ (224.7)	\$ (88.8)			
Unrecognized net actuarial loss				385.4	276.1	20.8
Unrecognized prior service cost				17.7	11.9	(35.2)
(Accrued) prepaid benefit cost at December 31, 2005				\$ 247.8	\$ 2.9	\$ (118.2)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET						
Noncurrent assets	\$ 31.3	\$ -	\$ -	\$ 44.3	\$ -	\$ -
Current liabilities	(9.3)	(4.4)	(9.3)	(5.0)	(15.0)	(15.0)
Postretirement benefits	(182.6)	(220.3)	(79.5)	(101.0)	(197.8)	(103.2)
Net amount recognized at December 31, 2006	\$ (160.6)	\$ (224.7)	\$ (88.8)			
Intangible asset				7.3	12.0	-
Accumulated other comprehensive loss				302.2	203.7	-
Net amount recognized at December 31, 2005				\$ 247.8	\$ 2.9	\$ (118.2)
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AS OF MEASUREMENT DATE						
Discount rate	6.00%	4.93%	6.25%	5.75%	4.87%	6.00%

Rate of compensation increase	3.93%	3.65%	-	3.92%	3.86%	-
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The amounts recognized in accumulated other comprehensive loss as of December 31, 2006, are as follows:

	PENSION BENEFITS PLANS IN THE UNITED STATES	PENSION BENEFITS PLANS OUTSIDE OF THE UNITED STATES	OTHER POSTRETIREMENT BENEFITS ALL PLANS	TOTAL
Prior service cost (credit)	\$ 14.7	\$ 11.8	\$ (30.9)	\$ (4.4)
Net loss	363.9	193.1	9.8	566.8
Total	\$ 378.6	\$ 204.9	\$ (21.1)	\$562.4

The amounts in accumulated other comprehensive loss as of December 31, 2006, that are expected to be recognized as components of net periodic benefit cost (credit) during 2007 are as follows:

	PENSION BENEFITS PLANS IN THE UNITED STATES	PENSION BENEFITS PLANS OUTSIDE OF THE UNITED STATES	OTHER POSTRETIREMENT BENEFITS ALL PLANS	TOTAL
Prior service cost (credit)	\$ 2.1	\$ 1.6	\$ (4.6)	\$ (.9)
Net loss	26.3	12.5	.2	39.0
Total	\$ 28.4	\$ 14.1	\$ (4.4)	\$ 38.1

The allocation, by asset category, of assets of defined benefit pension plans in the United States at September 30, 2006 and 2005, respectively, were as follows:

PLAN ASSETS AT SEPTEMBER 30	2006	2005
Equity Securities	69%	72%
Fixed Income Securities	28%	26%
Alternative Investments	3%	2%
	100%	100%

At September 30, 2006, the Corporation's targeted allocation, by asset category, of assets of defined benefit pension plans in the United States is equity securities – 65% (comprised of 50% U.S. and 15% non-U.S. equities); fixed income securities – 30%; and alternative investments – 5%.

The allocation, by asset category, of assets of defined benefit pension plans outside of the United States at September 30, 2006 and 2005, respectively, were as follows:

PLAN ASSETS AT SEPTEMBER 30	2006	2005
Equity Securities	72%	70%
Fixed Income Securities	21%	22%
Real Estate	5%	7%
Other	2%	1%
	100%	100%

At September 30, 2006, the Corporation's targeted allocation, by asset category, of assets of defined benefit pension plans outside of the United States is equity securities – 68%; fixed income securities – 25%; and real estate – 7%.

To the extent that the actual allocation of plan assets differs from the targeted allocation by more than 5% for any category, plan assets are re-balanced within three months.

The Corporation establishes its estimated long-term return on plan assets considering various factors, which include the targeted asset allocation percentages, historic returns, and expected future returns. Specifically, the factors are considered in the fourth quarter of the year preceding the year for which those assumptions are applied.

The accumulated benefit obligation related to all defined benefit pension plans and information related to unfunded and underfunded defined benefit pension plans at the end of each year, in millions of dollars, follows:

	PENSION BENEFITS PLANS IN THE UNITED STATES		PENSION BENEFITS PLANS OUTSIDE OF THE UNITED STATES	
	2006	2005	2006	2005
All defined benefit plans:				
Accumulated benefit obligation	\$ 983.9	\$ 963.3	\$742.6	\$684.2
Unfunded defined benefit plans:				
Projected benefit obligation	107.4	97.2	119.5	109.2
Accumulated benefit obligation	85.3	72.0	109.7	100.0
Defined benefit plans with an accumulated benefit obligation in excess of the fair value of plan assets:				
Projected benefit obligation	1,032.0	1,003.0	780.7	757.1
Accumulated benefit obligation	941.0	920.7	730.1	684.2
Fair value of plan assets	840.0	818.8	553.4	468.4

The following table sets forth, in millions of dollars, benefit payments, which reflect expected future service, as appropriate, expected to be paid in the periods indicated.

	PENSION BENEFITS PLANS IN THE UNITED STATES	PENSION BENEFITS PLANS OUTSIDE OF THE UNITED STATES	OTHER POSTRETIREMENT BENEFITS ALL PLANS
2007	\$ 68.2	\$ 33.0	\$ 9.6
2008	71.8	34.0	9.3
2009	68.7	35.2	9.1
2010	68.7	36.3	9.0
2011	68.9	37.6	8.9
2012-2016	381.9	205.3	40.8

The net periodic cost (benefit) related to the defined benefit pension plans included the following components, in millions of dollars:

	PENSION BENEFITS PLANS IN THE UNITED STATES			PENSION BENEFITS PLANS OUTSIDE OF THE UNITED STATES		
	2006	2005	2004	2006	2005	2004
Service cost	\$ 24.8	\$ 24.4	\$ 19.0	\$ 14.7	\$ 13.7	\$ 13.7
Interest cost	58.4	57.9	54.7	38.4	37.5	35.5
Expected return on plan assets	(76.7)	(80.6)	(82.4)	(34.6)	(34.9)	(35.1)
Amortization of the unrecognized transition obligation	—	—	—	.1	.1	.1
Amortization of prior service cost	3.3	1.2	1.2	1.6	1.4	1.4
Curtailment/settlement loss	—	—	.3	—	—	—
Amortization of net actuarial loss	24.8	21.3	15.8	17.2	12.0	10.2
Net periodic cost	\$ 34.6	\$ 24.2	\$ 8.6	\$ 37.4	\$ 29.8	\$ 25.8

WEIGHTED-AVERAGE ASSUMPTIONS

USED IN DETERMINING NET

PERIODIC COST FOR YEAR:

Discount rate	5.75%	6.00%	6.00%	4.87%	5.44%	5.44%
Expected return on plan assets	8.75%	8.75%	8.75%	7.49%	7.50%	7.49%
Rate of compensation increase	4.00%	4.00%	4.00%	3.86%	3.85%	3.40%

The net periodic cost related to the defined benefit postretirement plans included the following components, in millions of dollars:

	2006	2005	2004
Service cost	\$ 1.0	\$.8	\$.7
Interest cost	5.9	8.4	8.8
Amortization of prior service cost	(4.6)	(1.7)	(1.9)
Amortization of net actuarial loss	.9	.9	1.2
Curtailment gain	(.3)	(.6)	—
Net periodic cost	\$ 2.9	\$ 7.8	\$ 8.8
Weighted-average discount rate used in determining net periodic cost for year	6.00%	6.25%	6.25%

The health care cost trend rate used to determine the postretirement benefit obligation was 9.25% for participants under 65 and 8.5% for participants 65 and older in 2006. This rate decreases gradually to an ultimate rate of 5.0% in 2012, and remains at that level thereafter. The trend rate is a significant factor in determining the amounts reported. A one-percentage-point change in these assumed health care cost trend rates would have the following effects, in millions of dollars:

ONE-PERCENTAGE-POINT	INCREASE	(DECREASE)
Effect on total of service and interest cost components	\$.3	\$ (3)
Effect on postretirement benefit obligation	4.0	(3.9)

During the fourth quarter of 2005, the Corporation adopted plan amendments for two of its non-qualified pension plans in the United States to permit certain participants to elect to receive their benefits under the plans in five equal annual installments or in the form of a lump sum payment, depending upon the age of the participant at retirement. Those amendments increased the Corporation's liability for pension benefits by approximately \$13.1 million. This increase in the liability is being amortized as prior service cost over approximately 9 years.

During the fourth quarter of 2005, the Corporation adopted a plan amendment to eliminate the prescription drug benefit previously available to substantially all retirees under the Medicare supplemental plan, which was replaced by a prescription drug benefit under Medicare (Medicare Part D). That amendment reduced the Corporation's liability for postretirement health benefits by approximately \$32.7 million. This reduction in the liability is being amortized as a prior service credit over approximately 10 years.

In 2007, the Corporation expects to make cash contributions of approximately \$25.0 million to its defined benefit pension plans. The amounts principally represent contributions required by funding regulations or laws or those related to unfunded plans necessary to fund current benefits. In addition, the Corporation expects to continue to make contributions in 2007 sufficient to fund benefits paid under its other postretirement benefit plans during that year, net of contributions by plan participants. The Corporation expects that such contributions will be approximately \$9.6 million in 2007.

Expense for defined contribution plans amounted to \$12.5 million, \$12.7 million, and \$11.8 million in 2006, 2005, and 2004, respectively.

NOTE 14: OTHER LIABILITIES

At December 31, 2006 and 2005, other long-term liabilities included a reserve of \$271.2 million and \$248.3 million, respectively, associated with various tax matters in a number of jurisdictions.

NOTE 15: STOCKHOLDERS' EQUITY

The Corporation repurchased 11,753,700, 6,276,700, and 66,100 shares of its common stock during 2006, 2005, and 2004 at an aggregate cost of \$896.0 million, \$525.7 million, and \$3.6 million, respectively.

To reflect the repurchases during 2006 in its Consolidated Balance Sheet, the Corporation: (i) first, reduced its common stock by \$5.9 million, representing the aggregate par value of the shares repurchased; (ii) next, reduced capital in excess of par value by \$474.7 million – an amount which brought capital in excess of par value to zero; and (iii) last, charged the residual of \$415.4 million to retained earnings.

SFAS No. 130, *Reporting Comprehensive Income*, defines comprehensive income as non-stockholder changes in equity. Accumulated other comprehensive income (loss) at the end of each year, in millions of dollars, included the following components:

	2006	2005
Foreign currency translation adjustment	\$ 33.3	\$ (54.7)
Net (loss) gain on derivative instruments, net of tax	(2.2)	6.6
Minimum pension liability adjustment, net of tax	(373.9)	(337.6)
	\$ (342.8)	\$ (385.7)

The Corporation has designated certain intercompany loans and foreign currency derivative contracts as long-term investments in certain foreign subsidiaries and foreign currency derivative contracts. Net translation (loss) gain associated with these designated intercompany loans and foreign currency derivative contracts in the amounts of \$(4) million and \$6.5 million were recorded in the foreign currency translation adjustment in 2006 and 2005, respectively.

Foreign currency translation adjustments are not generally adjusted for income taxes as they relate to indefinite investments in foreign subsidiaries. The minimum pension liability adjustments as of December 31, 2006 and 2005, are net of taxes of \$188.5 million and \$168.3 million, respectively.

NOTE 16: EARNINGS PER SHARE

The computations of basic and diluted earnings per share for each year were as follows:

(AMOUNTS IN MILLIONS EXCEPT PER SHARE DATA)	2006	2005	2004
Numerator:			
Net earnings from continuing operations	\$486.1	\$532.2	\$430.7
Net (loss) earnings from discontinued operations	–	(.1)	14.9
Net earnings	\$486.1	\$532.1	\$445.6
Denominator:			
Denominator for basic earnings per share— weighted-average shares	72.1	79.2	79.8
Employee stock options and other stock-based plans	2.1	2.2	1.3
Denominator for diluted earnings per share— adjusted weighted-average shares and assumed conversions	74.2	81.4	81.1
Basic earnings per share			
Continuing operations	\$ 6.74	\$ 6.72	\$ 5.40
Discontinued operations	–	–	.19
Basic earnings per share	\$ 6.74	\$ 6.72	\$ 5.59
Diluted earnings per share			
Continuing operations	\$ 6.55	\$ 6.54	\$ 5.31
Discontinued operations	–	–	.18
Diluted earnings per share	\$ 6.55	\$ 6.54	\$ 5.49

The following options to purchase shares of common stock were outstanding during each year, but were not included in the computation of diluted earnings per share because the effect would be anti-dilutive. The options indicated below were anti-dilutive because the related exercise price was greater than the average market price of the common shares for the year.

	2006	2005	2004
Number of options (in millions)	1.3	.6	.6
Weighted-average exercise price	\$86.54	\$81.45	\$56.13

NOTE 17: STOCK-BASED COMPENSATION

As disclosed in Note 1 of Notes to Consolidated Financial Statements, the Corporation adopted SFAS No. 123R on January 1, 2006, under the modified retrospective method of adoption. The Corporation recognized total stock-based compensation costs of \$29.2 million, \$30.1 million, and \$34.4 million in 2006, 2005, and 2004, respectively. These amounts are reflected in the Consolidated Statement of Earnings in selling, general, and administrative expenses. The total income tax benefit for stock-based compensation arrangements was \$10.2 million, \$10.5 million, and \$12.1 million in 2006, 2005, and 2004, respectively.

The Corporation has three stock-based employee compensation plans, which are described below. At December 31, 2006, unrecognized stock-based compensation expense related to non-vested stock options, restricted stock, and Performance Equity Plan stock awards totaled \$54.9 million. The cost of these non-vested awards is expected to be recognized over a weighted-average period of 2.7 years.

Stock Option Plan: Under various stock option plans, options to purchase common stock may be granted until 2013. Options are granted at fair market value at the date of grant, generally become exercisable in four equal installments beginning one year from the date of grant, and expire 10 years after the date of grant. The plans permit the issuance of either incentive stock options or non-qualified stock options.

Under all stock option plans, there were 2,310,493 shares of common stock reserved for future grants as of December 31, 2006. Transactions are summarized as follows:

	STOCK OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Outstanding at December 31, 2003	10,357,913	\$ 43.60
Granted	710,325	62.34
Exercised	(3,917,697)	43.41
Forfeited	(161,627)	44.87
Outstanding at December 31, 2004	6,988,914	45.58
Granted	759,275	82.26
Exercised	(1,268,653)	44.15
Forfeited	(207,638)	59.19
Outstanding at December 31, 2005	6,271,898	49.86
Granted	774,670	91.85
Exercised	(871,716)	43.76
Forfeited	(138,840)	69.45
Outstanding at December 31, 2006	6,036,012	\$ 55.68
Options expected to vest at December 31, 2006	5,929,790	\$ 55.10
Options exercisable at December 31, 2006	4,243,269	\$ 46.91

As of December 31, 2006, the weighted-average remaining contractual term was 5.5 years, 5.4 years, and 4.3 years for options outstanding, options expected to vest, and options exercisable, respectively. As of December 31, 2006, the aggregate intrinsic value was \$157.2 million, \$157.1 million, and \$140.7 million for options outstanding, options expected to vest, and options exercisable, respectively.

The preceding aggregate intrinsic values represents the total pretax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the holders of those options specified in the table above had all option holders exercised their options on December 31, 2006. These amounts will change based on the fair market value of the Corporation's stock.

Cash received from option exercises in 2006, 2005, and 2004 was \$38.5 million, \$56.0 million and \$171.6 million, respectively.

The total intrinsic value of options exercised in 2006, 2005, and 2004 was \$39.1 million, \$52.7 million, and \$95.6 million, respectively. The actual tax benefit realized for the tax deduction from option exercises totaled \$13.4 million, \$18.2 million, and \$31.2 million in 2006, 2005 and 2004, respectively.

The weighted-average grant-date fair values of options granted during 2006, 2005 and 2004, were \$25.52 per share, \$26.12 per share and \$20.46 per share, respectively. The fair value of stock options is determined using the Black-Scholes option valuation model, which incorporates assumptions surrounding expected volatility, dividend yield, the risk-free interest rate, expected option life, and the exercise price compared to the stock price on the grant date. In connection with the adoption of SFAS No. 123R and the 2006 grant of employee stock options, the Corporation evaluated the assumptions previously used for estimating the fair value of the options granted. Based on this evaluation, including guidance provided by the Securities and Exchange Commission in Staff Accounting Bulletin 107, the Corporation determined that a combination of historical and implied volatility, rather than historical volatility alone, provided a better indicator of future stock price trends. The volatility assumption utilized in determining the fair value of stock options granted during 2006, was based upon the average of historical and implied volatility. The Corporation determined the estimated expected life of options based on a weighted-average of the average period of time from grant date to exercise date, the average period of time from grant date to cancellation date after vesting, and the mid-point of time to expiration for outstanding vested options.

Options granted during 2006, 2005, and 2004 were determined using the Black-Scholes option valuation model with the following weighted-average assumptions:

	2006	2005	2004
Expected life in years	5.4	5.7	6.0
Interest rate	4.96%	4.04%	3.97%
Volatility	25.8%	31.0%	31.9%
Dividend yield	1.66%	1.36%	1.36%

The Corporation has a share repurchase program that was implemented based on the belief that its shares were undervalued and to manage share growth resulting from option exercises. At December 31, 2006, the Corporation has remaining authorization from its Board of Directors to repurchase an additional 3,315,095 shares of its common stock.

Restricted Stock Plan: In 2004, the Corporation adopted a restricted stock plan. A total of 1,000,000 shares of restricted stock were authorized under this plan. Under the restricted stock plan, eligible employees are awarded restricted shares of the Corporation's common stock. Restrictions on awards generally expire from three to four years after issuance, subject to continuous employment and certain other conditions. Transactions are summarized as follows:

	NUMBER OF SHARES	WEIGHTED-AVERAGE FAIR VALUE AT GRANT DATE
Non-vested at December 31, 2003	—	\$ —
Granted	278,296	57.28
Forfeited	(7,950)	62.80
Non-vested at December 31, 2004	270,346	57.12
Granted	199,630	82.23
Forfeited	(32,025)	67.72
Vested	(255)	55.23
Non-vested at December 31, 2005	437,696	67.80
Granted	230,134	91.58
Forfeited	(37,093)	73.18
Vested	(12,699)	68.44
Non-vested at December 31, 2006	618,038	\$ 76.32

The fair value of the shares that vested during 2006 was \$1.1 million. The fair value of the shares that vested during 2005 was not significant.

As of December 31, 2006, 369,008 shares of common stock were reserved for future grants.

Performance Equity Plan: The Corporation also has a Performance Equity Plan (PEP) under which awards payable in the Corporation's common stock are made. Vesting of the awards, which can range from 0% to 150% of the initial award, is based on pre-established financial performance measures during a two-year performance period. The fair value of the shares that vested during 2006 and 2005 was \$7.4 million and \$12.7 million, respectively. No shares vested during 2004. During 2006, 2005 and 2004, the Corporation granted 44,988, 41,189, and 61,035 performance shares under the PEP, respectively. At December 31, 2006 and 2005, there were 84,693 and 102,224 performance shares outstanding under the PEP, respectively.

NOTE 18: BUSINESS SEGMENTS AND GEOGRAPHIC INFORMATION

The Corporation has elected to organize its businesses based principally upon products and services. In certain instances where a business does not have a local presence in a particular country or geographic region, however, the Corporation has assigned responsibility for sales of that business's products to one of its other businesses with a presence in that country or region.

The Corporation operates in three reportable business segments: Power Tools and Accessories, Hardware and Home Improvement, and Fastening and Assembly Systems. The Power Tools and Accessories segment has worldwide responsibility for the manufacture and sale of consumer and industrial power tools and accessories, lawn and garden tools, and electric cleaning, automotive, and lighting products, as well as for product service. In addition, the Power Tools and Accessories segment has responsibility for the sale of security hardware to customers in Mexico, Central America, the Caribbean, and South America; for the sale of plumbing products to customers outside the United States and Canada; and for sales of household products. On March 1, 2006, the Corporation acquired Vector. On October 2, 2004, the Corporation acquired the Porter-Cable and Delta Tools Group from Pentair, Inc. These acquired businesses are included in the Power Tools and Accessories segment. The Hardware and Home Improvement segment has worldwide responsibility for the manufacture and sale of security hardware (except for the sale of security hardware in Mexico, Central America, the Caribbean, and South America). The Hardware and Home Improvement segment also has responsibility for the manufacture of plumbing products and for the sale of plumbing products to customers in the United States and Canada. The Fastening and Assembly Systems segment has worldwide responsibility for the manufacture and sale of fastening and assembly systems.

Sales, segment profit, depreciation and amortization, and capital expenditures set forth in the following tables exclude the results of the discontinued European security hardware business, as more fully described in Note 3.

Business Segments

(MILLIONS OF DOLLARS)

Year Ended December 31, 2006	Reportable Business Segments			Total	Currency Translation Adjustments	Corporate, Adjustments, & Eliminations	Consolidated
	Power Tools & Accessories	Hardware & Home Improvement	Fastening & Assembly Systems				
Sales to unaffiliated customers	\$4,735.6	\$ 1,003.4	\$ 666.5	\$6,405.5	\$ 41.8	\$ –	\$ 6,447.3
Segment profit (loss) (for Consolidated, operating income)	570.0	135.4	95.8	801.2	4.3	(65.1)	740.4
Depreciation and amortization	109.8	22.9	18.8	151.5	1.2	2.2	154.9
Income from equity method investees	13.2	–	–	13.2	–	(1.1)	12.1
Capital expenditures	71.7	14.0	16.6	102.3	.9	1.4	104.6
Segment assets (for Consolidated, total assets)	2,751.4	638.4	376.6	3,766.4	66.2	1,415.1	5,247.7
Investment in equity method investees	10.9	–	.3	11.2	–	(1.7)	9.5
Year Ended December 31, 2005							
Sales to unaffiliated customers	\$4,821.4	\$ 1,019.8	\$ 662.2	\$6,503.4	\$ 20.3	\$ –	\$ 6,523.7
Segment profit (loss) (for Consolidated, operating income)	634.9	143.9	94.6	873.4	2.7	(81.2)	794.9
Depreciation and amortization	102.4	25.6	18.7	146.7	.4	3.5	150.6
Income from equity method investees	21.1	–	–	21.1	–	(1.7)	19.4
Capital expenditures	80.7	12.9	15.7	109.3	–	1.8	111.1
Segment assets (for Consolidated, total assets)	2,752.0	633.0	378.5	3,763.5	(33.3)	2,112.2	5,842.4
Investment in equity method investees	8.9	–	.3	9.2	–	(1.7)	7.5
Year Ended December 31, 2004							
Sales to unaffiliated customers	\$3,840.8	\$ 970.2	\$ 619.9	\$5,430.9	\$ (32.5)	\$ –	\$ 5,398.4
Segment profit (loss) (for Consolidated, operating income)	488.4	146.3	84.2	718.9	(5.0)	(100.7)	613.2
Depreciation and amortization	90.1	27.1	17.5	134.7	(1.2)	9.0	142.5
Income from equity method investees	15.8	–	–	15.8	–	(1.2)	14.6
Capital expenditures	78.8	25.9	14.0	118.7	(1.9)	1.0	117.8
Segment assets (for Consolidated, total assets)	2,709.8	604.9	362.6	3,677.3	71.6	1,806.1	5,555.0
Investment in equity method investees	12.5	–	.3	12.8	–	(1.7)	11.1

The profitability measure employed by the Corporation and its chief operating decision maker for making decisions about allocating resources to segments and assessing segment performance is segment profit (for the Corporation on a consolidated basis, operating income). In general, segments follow the same accounting policies as those described in Note 1, except with respect to foreign currency translation and except as further indicated below. The financial statements of a segment's operating units located outside of the United States, except those units operating in highly inflationary economies, are generally measured using the local currency as the functional currency. For these units located outside of the United States, segment assets and elements of segment profit are translated using budgeted rates of exchange. Budgeted rates of exchange are established annually and, once established, all prior period segment data is restated to reflect the current year's budgeted rates of exchange. The amounts included in the preceding table under the captions "Reportable Business Segments", and "Corporate, Adjustments, & Eliminations" are reflected at the Corporation's budgeted rates of exchange for 2006. The amounts included in the preceding table under the caption "Currency Translation Adjustments" represent the difference between consolidated amounts determined using those budgeted rates of exchange and those determined based upon the rates of exchange applicable under accounting principles generally accepted in the United States.

Segment profit excludes interest income and expense, non-operating income and expense, adjustments to eliminate intercompany profit in inventory, and income tax expense. In determining segment profit, expenses relating to pension and other postretirement benefits are based solely upon estimated service costs. Corporate expenses, as well as certain centrally managed expenses, including expenses related to share-based compensation, are allocated to each reportable segment based upon budgeted amounts. While sales and transfers between segments are accounted for at cost plus a reasonable profit, the effects of intersegment sales are excluded from the computation of segment profit. Intercompany profit in inventory is excluded from segment assets and is recognized as a reduction of cost of goods sold by the selling segment when the related inventory is sold to an unaffiliated customer. Because the Corporation compensates the management of its various businesses on, among other factors, segment profit, the Corporation may elect to record certain segment-related expense items of an unusual or non-recurring nature in consolidation rather than reflect such items in segment profit. In addition, certain segment-related items of income or expense may be recorded in consolidation in one period and transferred to the various segments in a later period.

Segment assets exclude assets of discontinued operations, pension and tax assets, intercompany profit in inventory, intercompany receivables, and goodwill associated with the Corporation's acquisition of Emhart Corporation in 1989.

The reconciliation of segment profit to consolidated earnings from continuing operations before income taxes for each year, in millions of dollars, is as follows:

	2006	2005	2004
Segment profit for total reportable business segments	\$801.2	\$873.4	\$718.9
Items excluded from segment profit:			
Adjustment of budgeted foreign exchange rates to actual rates	4.3	2.7	(5.0)
Depreciation of Corporate property	(.9)	(1.0)	(1.2)
Adjustment to businesses' postretirement benefit expenses booked in consolidation	(25.2)	(13.8)	.8
Other adjustments booked in consolidation directly related to reportable business segments	(.2)	3.3	(10.0)
Amounts allocated to businesses in arriving at segment profit in excess of (less than) Corporate center operating expenses, eliminations, and other amounts identified above	(38.8)	(69.7)	(90.3)
Operating income	740.4	794.9	613.2
Interest expense, net of interest income	73.8	45.4	22.1
Other expense (income)	2.2	(51.6)	2.8
Earnings from continuing operations before income taxes	\$664.4	\$801.1	\$588.3

The reconciliation of segment assets to consolidated total assets at the end of each year, in millions of dollars, is as follows:

	2006	2005	2004
Segment assets for total reportable business segments	\$3,766.4	\$3,763.5	\$3,677.3
Items excluded from segment assets:			
Adjustment of budgeted foreign exchange rates to actual rates	66.2	(33.3)	71.6
Goodwill	625.8	615.6	628.5
Pension assets	31.6	45.1	45.1
Other Corporate assets	757.7	1,451.5	1,132.5
	\$5,247.7	\$5,842.4	\$5,555.0

Other Corporate assets principally consist of cash and cash equivalents, tax assets, property, assets of discontinued operations, and other assets.

Sales to The Home Depot, a customer of the Power Tools and Accessories and Hardware and Home Improvement segments, accounted for approximately \$1.3 billion, \$1.4 billion, and \$1.0 billion of the Corporation's consolidated sales for the years ended December 31, 2006, 2005, and 2004, respectively. Sales to Lowe's Home Improvement Warehouse, a customer of the Power Tools and Accessories and Hardware and Home Improvement segments, accounted for approximately \$0.9 billion, \$0.9 billion, and \$0.7 billion of the Corporation's consolidated sales for the years ended December 31, 2006, 2005, and 2004, respectively.

The composition of the Corporation's sales by product group for each year, in millions of dollars, is set forth below:

	2006	2005	2004
Consumer and industrial power tools and product service	\$3,481.1	\$3,640.0	\$2,888.0
Lawn and garden products	457.8	518.2	339.2
Consumer and industrial accessories	475.1	458.5	379.1
Cleaning, automotive, lighting, and household products	319.3	184.7	180.2
Security hardware	751.7	745.1	730.1
Plumbing products	296.0	308.0	259.5
Fastening and assembly systems	666.3	669.2	622.3
	\$6,447.3	\$6,523.7	\$5,398.4

The Corporation markets its products and services in over 100 countries and has manufacturing sites in 10 countries. Other than in the United States, the Corporation does not conduct business in any country in which its sales in that country exceed 10% of consolidated sales. Sales are attributed to countries based on the location of customers. The composition of the Corporation's sales to unaffiliated customers between those in the United States and those in other locations for each year, in millions of dollars, is set forth below:

	2006	2005	2004
United States	\$4,149.9	\$4,317.8	\$3,442.6
Canada	356.5	335.1	249.4
North America	4,506.4	4,652.9	3,692.0
Europe	1,357.1	1,350.2	1,266.5
Other	583.8	520.6	439.9
	\$6,447.3	\$6,523.7	\$5,398.4

The composition of the Corporation's property, plant, and equipment between those in the United States and those in other countries as of the end of each year, in millions of dollars, is set forth below:

	2006	2005	2004
United States	\$281.9	\$328.3	\$380.2
Mexico	120.9	120.0	110.7
Other countries	219.4	220.5	263.7
	\$622.2	\$668.8	\$754.6

NOTE 19: LEASES

The Corporation leases certain service centers, offices, warehouses, manufacturing facilities, and equipment. Generally, the leases carry renewal provisions and require the Corporation to pay maintenance costs. Rental payments may be adjusted for increases in taxes and insurance above specified amounts. Rental

expense for 2006, 2005, and 2004 amounted to \$101.3 million, \$99.7 million, and \$92.6 million, respectively. Capital leases were immaterial in amount. Future minimum payments under non-cancelable operating leases with initial or remaining terms of more than one year as of December 31, 2006, in millions of dollars, were as follows:

2007	\$ 68.1
2008	50.3
2009	37.1
2010	21.5
2011	10.0
Thereafter	9.9

\$196.9

NOTE 20: RESTRUCTURING ACTIONS

A summary of restructuring activity during the three years ended December 31, 2006, in millions of dollars, is set forth below:

	SEVERANCE BENEFITS	WRITE-DOWN TO FAIR VALUE LESS COSTS TO SELL OF CERTAIN LONG-LIVED ASSETS	OTHER CHARGES	TOTAL
Restructuring reserve at December 31, 2003	\$ 42.6	\$ —	\$ 1.1	\$ 43.7
Reserves established in 2004	5.2	—	.2	5.4
Reversal of reserves	(4.0)	—	—	(4.0)
Proceeds received in excess of the adjusted carrying value of long-lived assets	—	(1.4)	—	(1.4)
Utilization of reserves:				
Cash	(24.9)	—	(.1)	(25.0)
Non-cash	—	1.4	—	1.4
Foreign currency translation	.1	—	—	.1
Restructuring reserve at December 31, 2004	19.0	—	1.2	20.2
Utilization of reserves:				
Cash	(13.6)	—	—	(13.6)
Foreign currency translation	(.1)	—	—	(.1)
Restructuring reserve at December 31, 2005	5.3	—	1.2	6.5
Reserves established in 2006	—	1.8	—	1.8
Reversal of reserves	(1.8)	—	—	(1.8)
Utilization of reserves:				
Cash	(.9)	—	(.8)	(1.7)
Non-cash	—	(1.8)	—	(1.8)
Foreign currency translation	.2	—	—	.2
Restructuring reserve at December 31, 2006	\$ 2.8	\$ —	\$.4	\$ 3.2

In 2004, the Corporation recognized \$5.4 million of pre-tax restructuring and exit costs related to actions taken in its Power Tools and Accessories segment. The restructuring actions taken in 2004 principally reflected severance benefits. The \$5.4 million charge recognized during 2004 was offset, however, by the reversal of \$4.0 million of severance accruals established as part of previously provided restructuring reserves that were no longer required and \$1.4 million representing the excess of proceeds received on the sale of long-lived assets, written down as part of restructuring actions, over their adjusted carrying values.

During 2006, 2005, and 2004, the Corporation paid severance and other exit costs of \$1.7 million, \$13.6 million, and \$25.0 million, respectively.

The Corporation anticipates that actions covered by the \$3.2 million restructuring accrual at December 31, 2006, will be completed in 2007.

The amounts reflected in the column titled "Write-down to fair value less costs to sell of certain long-lived assets," as included within this Note, relating to reserves established during the three years ended December 31, 2006, represent adjustments to the carrying value of those long-lived assets.

NOTE 21: OTHER EXPENSE (INCOME)

Other expense (income) was \$2.2 million in 2006, \$(51.6) million in 2005, and \$2.8 million in 2004. During 2005, the Corporation received a payment of \$55.0 million relating to the settlement of environmental and product liability coverage litigation with an insurer.

NOTE 22: LITIGATION AND CONTINGENT LIABILITIES

The Corporation is involved in various lawsuits in the ordinary course of business. These lawsuits primarily involve claims for damages arising out of the use of the Corporation's products and allegations of patent and trademark infringement. The Corporation also is involved in litigation and administrative proceedings involving employment matters and commercial disputes. Some of these lawsuits include claims for punitive as well as compensatory damages. The Corporation, using current product sales data and historical trends, actuarially calculates the estimate of its exposure for product liability. The Corporation is insured for product liability claims for amounts in excess of established deductibles and accrues for the estimated liability up to the limits of the deductibles. All other claims and lawsuits are handled on a case-by-case basis.

The Corporation also is 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 the Corporation but at which the Corporation 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 Board (the Water Quality Board) have each initiated administrative proceedings against the Corporation and certain of the Corporation's current or former affiliates alleging that the Corporation 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 cities of Colton and Rialto, as well as the West Valley Water District and the Fontana Water Company, a private company, also have initiated lawsuits against the Corporation and certain of the Corporation's former or current affiliates in the Federal District Court for California, Central District alleging similar claims that the Corporation is liable under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 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. All defendants have crossclaims against one another in the federal litigation. 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 that supplies drinking water to the referenced three municipal water suppliers and one private water company in California and that the Corporation and certain of the Corporation's current or former affiliates are liable as a "successor" of WCLC. Judgment has been entered in favor of all defendants, including the Corporation and certain of the Corporation's current and former affiliates, in the federal lawsuit brought by the City of Colton as to Colton's federal claims. The remaining state claims and the crossclaims in that lawsuit have been dismissed by the court on jurisdictional grounds. The City of Colton and several co-defendants have appealed the dismissal of these claims. The City of Colton also has re-filed its claims in California state court and filed a new federal action arising out of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act, and state law. Certain defendants have crossclaimed against other defendants in the new federal action and have asserted claims against The United States Department of Defense, Environmental Protection Agency and the City of Rialto. The Corporation believes that neither the facts nor the law support an allegation that the Corporation is responsible for the contamination and is vigorously contesting these claims.

For sites never operated by the Corporation, the Corporation makes an assessment of the costs involved based on environmental studies, prior experience at similar sites, and the experience of other named parties. The Corporation also considers the ability of other parties to share costs, the percentage of the Corporation's exposure relative to all other parties, and the effects of inflation on these estimated costs. For matters associated with properties currently operated by the Corporation, the Corporation makes an assessment as to whether an investigation and remediation would be required under applicable federal and state laws. For matters associated with properties previously sold or operated by the Corporation, the Corporation considers any applicable terms of sale and applicable federal and state laws to determine if it has any remaining liability. If it is determined that the Corporation has potential liability for properties currently owned or previously sold, an estimate is made of the total costs of investigation and remediation and other potential costs associated with the site.

As of December 31, 2006, the Corporation's aggregate probable exposure with respect to environmental liabilities, for which accruals have been established in the consolidated financial statements, was \$76.4 million. These accruals are reflected in other current liabilities and other long-term liabilities in the Consolidated Balance Sheet.

During 2003, the Corporation received notices of proposed adjustments from the United States Internal Revenue Service (IRS) in connection with audits of the tax years 1998 through 2000. The principal adjustment proposed by the IRS consists of the disallowance of a capital loss deduction taken in the Corporation's tax returns and interest on the deficiency. Prior to receiving the notices of proposed adjustments from the IRS, the Corporation filed a petition against the IRS in the Federal District Court of Maryland (the Court) seeking refunds for a carryback of a portion of the aforementioned capital loss deduction. The IRS subsequently filed a counterclaim to the Corporation's petition. In October 2004, the Court granted the Corporation's motion for summary judgment on its

complaint against the IRS and dismissed the IRS counterclaim. In its opinion, the Court ruled in the Corporation's favor that the capital losses cannot be disallowed by the IRS. In December 2004, the IRS appealed the Court's decision in favor of the Corporation to the United States Circuit Court of Appeals for the Fourth Circuit (the Fourth Circuit Court). In February 2006, the Fourth Circuit Court decided two of three issues in the Corporation's favor and remanded the third issue for trial in the Court. The Corporation vigorously disputes the position taken by the IRS in this matter. The Corporation has provided adequate reserves in the event that the IRS prevails in its disallowance of the previously described capital loss and the imposition of related interest. Should the IRS prevail in its disallowance of the capital loss deduction and imposition of related interest, it would result in a cash outflow by the Corporation of approximately \$170 million. If the Corporation prevails, it would result in the Corporation receiving a refund of taxes previously paid of approximately \$50 million, plus interest.

The Corporation's estimate of the costs associated with product liability claims, environmental exposures, income tax matters, and other legal proceedings is accrued if, in management's judgment, the likelihood of a loss is probable and the amount of the loss can be reasonably estimated.

These accrued liabilities are not discounted. Insurance recoveries for environmental and certain general liability claims have not been recognized until realized.

In the opinion of management, amounts accrued for exposures relating to product liability claims, environmental matters, income tax matters, and other legal proceedings are adequate and, accordingly, the ultimate resolution of these matters is not expected to have a material adverse effect on the Corporation's consolidated financial statements. As of December 31, 2006, the Corporation had no known probable but inestimable exposures relating to product liability claims, environmental matters, income tax matters, or other legal proceedings that are expected to have a material adverse effect on the Corporation. There can be no assurance, however, that unanticipated events will not require the Corporation to increase the amount it has accrued for any matter or accrue for a matter that has not been previously accrued because it was not considered probable. While it is possible that the increase or establishment of an accrual could have a material adverse effect on the financial results for any particular fiscal quarter or year, in the opinion of management there exists no known potential exposure that would have a material adverse effect on the financial condition or on the financial results of the Corporation beyond any such fiscal quarter or year.

NOTE 23: QUARTERLY RESULTS (UNAUDITED)(DOLLARS IN MILLIONS EXCEPT PER SHARE DATA)
YEAR ENDED DECEMBER 31, 2006

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Sales	\$ 1,528.9	\$ 1,696.9	\$ 1,610.2	\$ 1,611.3
Gross margin	543.6	603.1	558.1	536.7
Net earnings	113.1	152.2	125.1	95.7
Net earnings per common share—basic	\$ 1.49	\$ 2.03	\$ 1.79	\$ 1.42
Net earnings per common share—diluted	\$ 1.45	\$ 1.98	\$ 1.74	\$ 1.38

YEAR ENDED DECEMBER 31, 2005	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Sales	\$ 1,519.3	\$ 1,698.8	\$ 1,575.6	\$ 1,730.0
Gross margin	535.5	599.5	562.1	620.0
Net earnings from continuing operations	144.0	150.9	137.5	99.8
Net earnings	144.8	150.9	137.8	98.6
Net earnings from continuing operations per common share - basic	\$ 1.79	\$ 1.89	\$ 1.73	\$ 1.29
Net earnings per common share—basic	1.80	1.89	1.74	1.27
Net earnings from continuing operations per common share - diluted	\$ 1.74	\$ 1.84	\$ 1.69	\$ 1.26
Net earnings per common share—diluted	1.75	1.84	1.70	1.24

As more fully described in Note 1, the Corporation adopted SFAS No. 123R effective January 1, 2006, using the modified retrospective method of adoption whereby the Corporation restated all prior periods presented based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures. The above quarterly results for 2005 reflect the restated amounts upon adoption of SFAS No. 123R.

As more fully described in Note 21, net earnings for the first quarter of 2005 included a \$55.0 million (\$35.8 million after-tax) favorable settlement of environmental and product liability coverage litigation with an insurer. As more fully described in Note 3, net earnings for the fourth quarter of 2005 included a \$.1 million loss on the sale of discontinued operations. As more fully described in Note 12, net earnings for the fourth quarter of 2005 included \$51.2 million of incremental tax expense resulting from the repatriation of \$888.3 million of foreign earnings associated with the AJCA.

Earnings per common share are computed independently for each of the quarters presented. Therefore, the sum of the quarters may not be equal to the full year earnings per share.

**REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS**

**To the Stockholders and Board of Directors
of The Black & Decker Corporation:**

We have audited the accompanying consolidated balance sheet of The Black & Decker Corporation and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Black & Decker Corporation and Subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1, the accompanying financial statements have been restated for the adoption of Statement of Financial Accounting Standards No. 123(R), "Share-based Payment", using the modified retrospective method. Also, as discussed in Note 1, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", as of December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Black & Decker Corporation and Subsidiaries' internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Baltimore, Maryland
February 14, 2007

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of Corporation's management, including the Chief Executive Officer and Chief Financial Officer, the Corporation evaluated the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of December 31, 2006. Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of Corporation's management, including the Chief Executive Officer and Chief Financial Officer, the Corporation evaluated the effectiveness of the design and operation of its internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2006.

Ernst & Young LLP, the Corporation's independent registered public accounting firm, audited management's assessment of the effectiveness of internal control over financial reporting and, based on that audit, issued the report set forth on the following page.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal controls over financial reporting during the quarterly period ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

**To the Stockholders and Board of Directors
of The Black & Decker Corporation:**

We have audited management's assessment, included in Management's Report on Internal Control Over Financial Reporting, that The Black & Decker Corporation and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Black & Decker Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that The Black & Decker Corporation and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, The Black & Decker Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Black & Decker Corporation and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 14, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Baltimore, Maryland
February 14, 2007

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required under this Item with respect to Directors is contained in the Corporation's Proxy Statement for the Annual Meeting of Stockholders to be held April 19, 2007, under the captions "Election of Directors", "Corporate Governance", and "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

Information required under this Item with respect to Executive Officers of the Corporation is included in Item 1 of Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

Information required under this Item is contained in the Corporation's Proxy Statement for the Annual Meeting of Stockholders to be held April 19, 2007, under the captions "Corporate Governance" and "Executive Compensation" and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required under this Item is contained in the Corporation's Proxy Statement for the Annual Meeting of Stockholders to be held April 19, 2007, under the captions "Voting Securities", "Security Ownership by Management", and "Equity Compensation Plan Information" and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required under this Item is contained in the Corporation's Proxy Statement for the Annual Meeting of Stockholders to be held April 19, 2007, under the caption "Corporate Governance" and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required under this Item is contained in the Corporation's Proxy Statement for the Annual Meeting of Stockholders to be held April 19, 2007, under the caption "Ratification of the Selection of the Independent Registered Public Accounting Firm" and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of Financial Statements, Financial Statement Schedules, and Exhibits

(1) LIST OF FINANCIAL STATEMENTS

The following consolidated financial statements of the Corporation and its subsidiaries are included in Item 8 of Part II of this report:

Consolidated Statement of Earnings – years ended December 31, 2006, 2005, and 2004.

Consolidated Balance Sheet – December 31, 2006 and 2005.

Consolidated Statement of Stockholders' Equity – years ended December 31, 2006, 2005, and 2004.

Consolidated Statement of Cash Flows – years ended December 31, 2006, 2005, and 2004.

Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements.

(2) LIST OF FINANCIAL STATEMENT SCHEDULES

The following financial statement schedules of the Corporation and its subsidiaries are included herein:

Schedule II – Valuation and Qualifying Accounts and Reserves.

All other schedules for which provision is made in the applicable accounting regulations of the Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(3) LIST OF EXHIBITS

The following exhibits are either included in this report or incorporated herein by reference as indicated below:

Exhibit 3(a)

Articles of Restatement of the Charter of the Corporation, included in the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 29, 1997, are incorporated herein by reference.

Exhibit 3(b)

Bylaws of the Corporation, as amended, included in the Corporation's Current Report on Form 8-K filed with the Commission on April 28, 2005, are incorporated herein by reference.

Exhibit 4(a)

Indenture dated as of March 24, 1993, by and between the Corporation and Security Trust Company, National Association, as Trustee, included in the Corporation's Current Report on Form 8-K filed with the Commission on March 26, 1993, is incorporated herein by reference.

Exhibit 4(b)

Indenture dated as of June 26, 1998, by and among Black & Decker Holdings Inc., as Issuer, the Corporation, as Guarantor, and The First National Bank of Chicago, as Trustee, included in the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 28, 1998, is incorporated herein by reference.

Exhibit 4(c)(1)

Credit Agreement, dated as of October 29, 2004, among the Corporation, Black & Decker Holdings, Inc., as Initial Borrowers, the initial lenders named therein, as Initial Lenders, Citibank, N.A., as Administrative Agent, JPMorgan Chase Bank, as Syndication Agent, and Bank of America, N.A., BNP Paribas and Commerzbank AG, as Co-Documentation Agents, included in the Corporation's Current Report on Form 8-K filed with the Commission on November 4, 2004, is incorporated herein by reference.

Exhibit 4(c)(2)

Amendment, dated June 16, 2006, to the Credit Agreement, dated as of October 29, 2004, among the Corporation, Black & Decker Luxembourg S.ar.L, Black & Decker Luxembourg Finance S.C.A., the banks, financial institutions and other institutional lenders and issuing banks listed on the signature pages thereof, and Citibank, N.A., as administrative agent, included in the Corporation's Quarterly Report on Form 10-Q for the quarter ended July 2, 2006, is incorporated herein by reference.

Exhibit 4(d)

Indenture between the Corporation and The Bank of New York, as Trustee, dated as of June 5, 2001, included in the Corporation's Registration Statement on Form S-4 (Reg. No. 333-64790), is incorporated herein by reference.

Exhibit 4(e)

Indenture, dated as of October 18, 2004, between the Corporation and The Bank of New York, as Trustee, included in the Corporation's Current Report on Form 8-K filed with the Commission on October 20, 2004, is incorporated herein by reference.

Exhibit 4(f)

Indenture, dated as of November 16, 2006, between the Corporation and The Bank of New York, as Trustee.

Exhibit 4(g)

First Supplemental Indenture, dated as of November 16, 2006, between the Corporation and The Bank of New York, as Trustee.

The Corporation agrees to furnish a copy of any other documents with respect to long-term debt instruments of the Corporation and its subsidiaries upon request.

Exhibit 10(a)

The Black & Decker Corporation Deferred Compensation Plan for Non-Employee Directors, as amended, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(b)

The Black & Decker Non-Employee Directors Stock Plan, as amended and restated, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(c)

The Black & Decker 1989 Stock Option Plan, as amended, included in the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 30, 1997, is incorporated herein by reference.

Exhibit 10(d)

The Black & Decker 1992 Stock Option Plan, as amended, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(e)

The Black & Decker 1995 Stock Option Plan for Non-Employee Directors, as amended, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 1998, is incorporated herein by reference.

Exhibit 10(f)

The Black & Decker 1996 Stock Option Plan, as amended, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(g)

The Black & Decker 2003 Stock Option Plan, as amended.

Exhibit 10(h)

The Black & Decker Corporation 2004 Restricted Stock Plan, included as Exhibit B to the Proxy Statement, dated March 16, 2004, for the 2004 Annual Meeting of Stockholders of the Registrant, is incorporated herein by reference.

Exhibit 10(i)

The Black & Decker Performance Equity Plan, as amended, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(j)

Form of Restricted Share Agreement relating to The Black & Decker Corporation 2004 Restricted Stock Plan, included in the Corporation's Current Report on Form 8-K filed with the Commission on April 28, 2005, is incorporated herein by reference.

Exhibit 10(k)

Form of Nonqualified Stock Option Agreement with executive officers relating to the Corporation's stock option plans, included in the Corporation's Current Report on Form 8-K filed with the Commission on April 28, 2005, is incorporated herein by reference.

Exhibit 10(l)

The Black & Decker Executive Annual Incentive Plan, as amended and restated, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(m)

The Black & Decker Management Annual Incentive Plan, as amended, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(n)(1)

The Black & Decker Supplemental Pension Plan, as amended and restated, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(n)(2)

First Amendment to The Black & Decker Supplemental Pension Plan, included in the Corporation's Quarterly Report on 10-Q for the quarter ended April 2, 2006, is incorporated herein by reference.

Exhibit 10(o)

The Black & Decker Supplemental Retirement Savings Plan, as amended and restated, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(p)

The Black & Decker Supplemental Executive Retirement Plan, as amended and restated, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(q)

The Black & Decker Executive Life Insurance Program, as amended, included in the Corporation's Quarterly Report on Form 10-Q for the quarter ended April 4, 1993, is incorporated herein by reference.

Exhibit 10(r)

The Black & Decker Executive Salary Continuance Plan, as amended and restated, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(s)

Description of the Corporation's policy and procedures for relocation of existing employees (individual transfers), included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 1991, is incorporated herein by reference.

Exhibit 10(t)

Description of the Corporation's policy and procedures for relocation of new employees, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 1991, is incorporated herein by reference.

Exhibit 10(u)

Description of certain incidental benefits provided to executive officers of the Corporation, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by reference.

Exhibit 10(v)

Form of Severance Benefits Agreement by and between the Corporation and approximately 17 of its key employees, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(w)

Amended and Restated Employment Agreement, dated as of February 9, 2006, by and between the Corporation and Nolan D. Archibald, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(x)

Severance Benefits Agreement, dated February 10, 2006, by and between the Corporation and John W. Schiech, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(y)

Severance Benefits Agreement, dated February 10, 2006, by and between the Corporation and Charles E. Fenton, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(z)

Severance Benefits Agreement, dated February 10, 2006, by and between the Corporation and Michael D. Mangan, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(aa)

Severance Benefits Agreement, dated February 10, 2006, by and between the Corporation and Paul F. McBride.

Exhibit 10(bb)

Severance Benefits Agreement, dated February 10, 2006, by and between the Corporation and Thomas D. Koos, included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

Exhibit 10(cc)

The Black & Decker Corporation Corporate Governance Policies and Procedures Statement, as amended, included in the Corporation's Current Report on Form 8-K filed with the Commission on April 21, 2006, is incorporated herein by reference.

Items 10(a) through 10(cc) constitute management contracts and compensatory plans and arrangements required to be filed as exhibits under Item 14(c) of this Report.

Exhibit 21

List of Subsidiaries.

Exhibit 23

Consent of Independent Registered Public Accounting Firm.

Exhibit 24

Powers of Attorney.

Exhibit 31.1

Chief Executive Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2

Chief Financial Officer's Certification Pursuant to Rule 13a-14(a)/15-d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1

Chief Executive Officer's Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2

Chief Financial Officer's Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

All other items are "not applicable" or "none".

(b) Exhibits

The exhibits required by Item 601 of Regulation S-K are filed herewith.

(c) Financial Statement Schedules and Other Financial Statements

The Financial Statement Schedule required by Regulation S-X is filed herewith.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**THE BLACK & DECKER CORPORATION AND SUBSIDIARIES**
(MILLIONS OF DOLLARS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	OTHER CHARGES ADD (DEDUCT)	BALANCE AT END OF PERIOD
<i>Year Ended December 31, 2006</i>					
Reserve for doubtful accounts and cash discounts	\$ 45.1	\$ 101.5	\$104.1 (a)	\$ 2.0(b)	\$ 44.5
<i>Year Ended December 31, 2005</i>					
Reserve for doubtful accounts and cash discounts	\$ 52.1	\$ 87.2	\$92.8 (a)	\$ (1.4)(b)	\$ 45.1
<i>Year Ended December 31, 2004</i>					
Reserve for doubtful accounts and cash discounts	\$ 47.4	\$ 86.3	\$93.0 (a)	\$ 11.4 (b)	\$ 52 .1

(a) Accounts written off during the year and cash discounts taken by customers.

(b) Primarily includes currency translation adjustments and amounts associated with acquired and divested businesses.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE BLACK & DECKER CORPORATION

DATE: February 14, 2007

By /s/ NOLAN D. ARCHIBALD
Nolan D. Archibald
Chairman, President, and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 14, 2007, by the following persons on behalf of the registrant and in the capacities indicated.

SIGNATURE	TITLE	DATE
Principal Executive Officer <u>/s/ NOLAN D. ARCHIBALD</u> Nolan D. Archibald	Chairman, President, and Chief Executive Officer	<u>February 14, 2007</u>
Principal Financial Officer <u>/s/ MICHAEL D. MANGAN</u> Michael D. Mangan	Senior Vice President and Chief Financial Officer	<u>February 14, 2007</u>
Principal Accounting Officer <u>/s/ CHRISTINA M. MCMULLEN</u> Christina M. McMullen	Vice President and Controller	<u>February 14, 2007</u>

This report has been signed by the following directors, constituting a majority of the Board of Directors, by Nolan D. Archibald, Attorney-in-Fact.

Nolan D. Archibald
Barbara L. Bowles
George W. Buckley
M. Anthony Bums
Kim B. Clark

Manuel A. Fernandez
Benjamin H. Griswold, IV
Anthony Luiso
Mark H. Willes

By /s/ NOLAN D. ARCHIBALD
Nolan D. Archibald
Attorney-in-Fact

DATE: February 14, 2007

THE BLACK & DECKER CORPORATION

AND

**THE BANK OF NEW YORK,
AS TRUSTEE**

DEBT SECURITIES

INDENTURE

Dated as of November 16, 2006

TABLE OF CONTENTS

	<u>Page</u>	
ARTICLE I. DEFINITIONS AND INCORPORATION BY REFERENCE		
SECTION 1.1	DEFINITIONS	1
SECTION 1.2	OTHER DEFINITIONS	5
SECTION 1.3	INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT	5
SECTION 1.4	RULES OF CONSTRUCTION	6
ARTICLE II. THE DEBT SECURITIES		
SECTION 2.1	FORM AND DATING	7
SECTION 2.2	EXECUTION AND AUTHENTICATION	7
SECTION 2.3	AMOUNT UNLIMITED; ISSUABLE IN SERIES	9
SECTION 2.4	BOOK-ENTRY PROVISIONS FOR GLOBAL SECURITIES	11
SECTION 2.5	REGISTRAR AND PAYING AGENT	13
SECTION 2.6	PAYING AGENT TO HOLD MONEY IN TRUST	13
SECTION 2.7	HOLDER LISTS	14
SECTION 2.8	TRANSFER AND EXCHANGE	14
SECTION 2.9	MUTILATED, DESTROYED, LOST OR STOLEN DEBT SECURITIES	16
SECTION 2.10	OUTSTANDING DEBT SECURITIES	16
SECTION 2.11	TEMPORARY DEBT SECURITIES	17
SECTION 2.12	CANCELLATION	17
SECTION 2.13	PAYMENT OF INTEREST; DEFAULTED INTEREST	17
SECTION 2.14	COMPUTATION OF INTEREST	18
SECTION 2.15	CUSIP AND ISIN NUMBERS	19
ARTICLE III. COVENANTS		
SECTION 3.1	PAYMENT OF DEBT SECURITIES	19
SECTION 3.2	LIMITATION ON LIENS	20
SECTION 3.3	LIMITATION ON SALE LEASEBACK TRANSACTIONS	20
SECTION 3.4	MAINTENANCE OF OFFICE OR AGENCY	21
SECTION 3.5	COMPLIANCE CERTIFICATE	21
SECTION 3.6	STATEMENT BY OFFICERS AS TO DEFAULT	22
SECTION 3.7	FURTHER INSTRUMENTS AND ACTS	22
ARTICLE IV. SUCCESSOR COMPANY		
SECTION 4.1	MERGER, CONSOLIDATION OR SALE OF ALL OR SUBSTANTIALLY ALL ASSETS OF THE COMPANY	22
ARTICLE V. REDEMPTION OF SECURITIES		
SECTION 5.1	OPTIONAL REDEMPTION	22
SECTION 5.2	APPLICABILITY OF ARTICLE	23
SECTION 5.3	ELECTION TO REDEEM; NOTICE TO TRUSTEE	23
SECTION 5.4	SELECTION BY TRUSTEE OF DEBT SECURITIES TO BE REDEEMED	23
SECTION 5.5	NOTICE OF REDEMPTION	24

SECTION 5.6	DEPOSIT OF REDEMPTION PRICE	25
SECTION 5.7	DEBT SECURITIES PAYABLE ON REDEMPTION DATE	25
SECTION 5.8	DEBT SECURITIES REDEEMED IN PART	25

ARTICLE VI. DEFAULTS AND REMEDIES

SECTION 6.1	EVENTS OF DEFAULT	25
SECTION 6.2	ACCELERATION	27
SECTION 6.3	OTHER REMEDIES	27
SECTION 6.4	WAIVER OF EXISTING DEFAULTS	27
SECTION 6.5	CONTROL BY MAJORITY	28
SECTION 6.6	LIMITATION ON SUITS	28
SECTION 6.7	RIGHTS OF HOLDERS TO RECEIVE PAYMENT	28
SECTION 6.8	COLLECTION SUIT BY TRUSTEE	29
SECTION 6.9	TRUSTEE MAY FILE PROOFS OF CLAIM	29
SECTION 6.10	PRIORITIES	29
SECTION 6.11	UNDERTAKING FOR COSTS	29

ARTICLE VII. TRUSTEE

SECTION 7.1	DUTIES OF TRUSTEE	30
SECTION 7.2	RIGHTS OF TRUSTEE	31
SECTION 7.3	INDIVIDUAL RIGHTS OF TRUSTEE	32
SECTION 7.4	TRUSTEE'S DISCLAIMER	32
SECTION 7.5	NOTICE OF DEFAULTS	33
SECTION 7.6	REPORTS BY TRUSTEE TO HOLDERS	33
SECTION 7.7	COMPENSATION AND INDEMNITY	33
SECTION 7.8	REPLACEMENT OF TRUSTEE	34
SECTION 7.9	SUCCESSOR TRUSTEE BY MERGER	35
SECTION 7.10	ELIGIBILITY; DISQUALIFICATION	35
SECTION 7.11	PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY	36

ARTICLE VIII. SATISFACTION AND DISCHARGE OF INDENTURE

SECTION 8.1	OPTION TO EFFECT LEGAL DEFEASANCE OR COVENANT DEFEASANCE	36
SECTION 8.2	LEGAL DEFEASANCE AND DISCHARGE	36
SECTION 8.3	COVENANT DEFEASANCE	36
SECTION 8.4	CONDITIONS TO LEGAL OR COVENANT DEFEASANCE	37
SECTION 8.5	SATISFACTION AND DISCHARGE OF INDENTURE	38
SECTION 8.6	SURVIVAL OF CERTAIN OBLIGATIONS	39
SECTION 8.7	ACKNOWLEDGMENT OF DISCHARGE BY TRUSTEE	39
SECTION 8.8	APPLICATION OF TRUST MONEYS	39
SECTION 8.9	REPAYMENT TO THE COMPANY; UNCLAIMED MONEY	40
SECTION 8.10	REINSTATEMENT	40

ARTICLE IX. AMENDMENTS

SECTION 9.1	WITHOUT CONSENT OF HOLDERS	40
SECTION 9.2	WITH CONSENT OF HOLDERS	41
SECTION 9.3	COMPLIANCE WITH TRUST INDENTURE ACT	42
SECTION 9.4	NOTATION ON OR EXCHANGE OF DEBT SECURITIES	42
SECTION 9.5	TRUSTEE TO SIGN AMENDMENTS	42

ARTICLE X. MISCELLANEOUS

SECTION 10.1	TRUST INDENTURE ACT CONTROLS	42
SECTION 10.2	NOTICES	42
SECTION 10.3	COMMUNICATION BY HOLDERS WITH OTHER HOLDERS	43
SECTION 10.4	CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT	43
SECTION 10.5	STATEMENTS REQUIRED IN CERTIFICATE OR OPINION	44
SECTION 10.6	WHEN DEBT SECURITIES DISREGARDED	44
SECTION 10.7	RULES BY TRUSTEE, PAYING AGENT AND REGISTRAR	44
SECTION 10.8	LEGAL HOLIDAYS	44
SECTION 10.9	GOVERNING LAW; WAIVER OF JURY TRIAL	44
SECTION 10.10	NO RECOURSE AGAINST OTHERS	45
SECTION 10.11	SUCCESSORS	45
SECTION 10.12	MULTIPLE ORIGINALS	45
SECTION 10.13	VARIABLE PROVISIONS	45
SECTION 10.14	TABLE OF CONTENTS; HEADINGS	45
SECTION 10.15	FORCE MAJEURE	45
SECTION 10.16	SEVERABILITY	45

CROSS-REFERENCE TABLE

<u>TIA Section</u>	<u>Indenture Section</u>
310(a)(1)	7.10
(a)(2)	7.10
(a)(3)	N.A.
(a)(4)	N.A.
(b)	7.8;7.10
(c)	N.A.
311(a)	7.11
(b)	7.11
(c)	N.A.
313(a)	2.7
(b)(1)	10.3
(b)(2)	10.3
(c)	7.6
(d)	N.A.
314(a)	7.6
(b)	7.6
(c)(1)	7.6
(c)(2)	3.5;10.2;10.5
(c)(3)	N.A.
(d)	10.4
(e)	10.4
315(a)	N.A.
(b)	N.A.
(c)	10.5
(d)	7.1
(e)	7.5;10.2
316(a)(last sentence)	7.1
(a)(1)(A)	7.1
(a)(1)(B)	6.11
(a)(2)	10.6
(b)	6.5
317(a)(1)	6.4
(a)(2)	N.A.
(b)	6.7
318(a)	6.8
	6.9
	2.5
	10.1

N.A. means Not Applicable.

Note: This Cross-Reference Table shall not, for any purpose, be deemed to be part of this Indenture.

INDENTURE, dated as of November 16, 2006, between THE BLACK & DECKER CORPORATION, a Maryland corporation, and THE BANK OF NEW YORK, a New York banking corporation, as Trustee.

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company's debt securities to be issued in one or more series (the "Debt Securities") up to such principal amount or amounts as may be authorized from time to time in accordance with the terms of this Indenture.

ARTICLE I

Definitions and Incorporation by Reference

SECTION 1.1 Definitions.

"Attributable Debt" for a lease means the carrying value of the capitalized rental obligation determined under generally accepted accounting principles whether or not such obligation is required to be shown on the balance sheet as a long-term liability. The carrying value may be reduced by the capitalized value of the rental obligations, calculated on the same basis, that any sublessee has for all or part of the same property.

"Board of Directors" means, as to any Person, the board of directors of such Person or any duly authorized committee thereof.

"Board Resolution" means, with respect to any Person, a resolution of the Board of Directors or of a committee or person to which or to whom the Board of Directors has properly delegated the appropriate authority, a copy of which has been certified by the Secretary or an Assistant Secretary of the Person to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification and delivered to the Trustee.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banking institutions are authorized or required by law to close in New York City.

"Company" means The Black & Decker Corporation or its successor.

"Consolidated Net Tangible Assets" means total assets less (1) total current liabilities (excluding any Debt which, at the option of the applicable borrower, is renewable or extendible to a term exceeding 12 months and which is included in current liabilities and further excluding any deferred income taxes which are included in current liabilities) and (2) goodwill, patents, trademarks and other like intangibles, all as stated on the Company's most recent quarter-end consolidated balance sheet preceding the date of determination.

"Corporate Trust Office" means the designated office of the Trustee at which at any time its corporate trust business shall be administered, which office at the date hereof is located at 101 Barclay Street, New York, New York, Floor 8W, Attention: Corporate Trust Administration, or such other address as the Trustee may designate from time to time by notice to the Holders and the Company, or the principal corporate trust office of any successor Trustee (or such other

address as such successor Trustee may designate from time to time by notice to the Holders and the Company).

“Debt” means any debt for borrowed money (including the Debt Securities), capitalized lease obligations and purchase money obligations, or any guarantee of such debt, in any such case that would appear on the consolidated balance sheet of the Company as a liability.

“Debt Securities” means, as defined in the second introductory paragraph of this Indenture, any of the securities that are authenticated and delivered under this Indenture.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Depository” means with respect to the Debt Securities of any series issuable or issued in the form of one or more Global Securities, The Depository Trust Company, or such other Person designated as Depository by the Company pursuant to Section 2.3 until a successor Depository shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Depository” shall mean or include each Person who is then a Depository hereunder, and if at any time there is more than one such Person, “Depository” as used with respect to the Debt Securities of any such series shall mean the Depository with respect to the Global Securities of that series.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Exempted Debt” calculated with respect to any series of Debt Securities means the sum, without duplication, of the following items outstanding as of the date of determination: (i) Debt incurred after the date on which the Debt Securities of the applicable series are first issued and secured by liens created or assumed or permitted to exist pursuant to paragraph (b) of Section 3.2 and (ii) Attributable Debt of the Company and its Subsidiaries in respect of all sale and lease-back transactions with regard to any Principal Property entered into pursuant to paragraph (b) of Section 3.3.

“Fiscal Year” means the fiscal year of the Company.

“Funded Debt” means all Debt having a maturity of more than one year from the date of its creation or having a maturity of less than one year but by its terms being renewable or extendible, at the option of the obligor in respect thereof, beyond one year from its creation.

“Global Security” means a Debt Security evidencing all or part of a series of Debt Securities issued to the Depository for such series in accordance with Sections 2.2 and 2.4.

“Holder” means the Person in whose name a Debt Security is registered in the Security Register.

“Indenture” means this Indenture, as amended or supplemented from time to time.

“Issue Date” means the date on which a series of Debt Securities are originally issued.

“Legal Holiday” has the meaning ascribed to it in Section 10.8.

“Officer” means the Chairman of the Board, any Vice Chairman of the Board, the President, the Chief Financial Officer, any Senior Vice President, any Vice President, the Treasurer or the Secretary of the Company.

“Officers’ Certificate” means a certificate signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Company and delivered to the Trustee. An Officers’ Certificate given pursuant to Section 3.5 shall be signed by any of the principal executive officer, the principal financial officer or the principal accounting officer of the Company and any other Officer.

“Opinion of Counsel” means a written opinion (subject to customary assumptions, qualifications and exceptions) from legal counsel that is reasonably acceptable to the Trustee. Unless otherwise required by the TIA, the counsel may be an employee of or counsel to the Company.

“Person” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

“principal” of any Debt (including the Debt Securities) means the principal amount of such Debt plus the premium, if any, on such Debt.

“Principal Property” means land, land improvements, buildings and associated factory and laboratory equipment owned or leased pursuant to a capital lease and used by the Company or any Subsidiary primarily for manufacturing, assembling, processing, producing, packaging or storing its products, raw materials, inventories or other materials and supplies located in the United States and having an acquisition cost plus capitalized improvements in excess of 2% of Consolidated Net Tangible Assets as of the date of determination, but shall not include any such property financed through the issuance of tax exempt governmental obligations, or any such property that has been determined by Board Resolution of the Company not to be of material importance to the respective businesses conducted by the Company and its Subsidiaries taken as a whole, effective as of the date such resolution is adopted.

“Redemption Date” means, with respect to any redemption of Debt Securities, the date of redemption with respect thereto.

“SEC” means the Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended.

“Securities Custodian” means the custodian with respect to the Global Security (as appointed by the Depository), or any successor Person thereto and shall initially be the Trustee.

“Security Register” has the meaning ascribed to it in Section 2.5.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

“Subsidiary” means any corporation, limited liability company or other business entity of which more than 50% of the total voting power of the equity interests entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof or any partnership of which more than 50% of the partners’ equity interests (considering all partners’ equity interests as a single class) is, in each case, at the time owned or controlled, directly or indirectly, by the Company, one or more of the Subsidiaries of the Company, or a combination thereof.

“TIA” or “Trust Indenture Act” means the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbb), as in effect on the date of this Indenture; *provided, however*, in the event the Trust Indenture Act of 1939 is amended after such date, “TIA” or “Trust Indenture Act” means, to the extent required by any such amendment, the Trust Indenture Act of 1939, as so amended.

“Trustee” means the party named as such in this Indenture until a successor replaces it and, thereafter, means the successor.

“Trust Officer” shall mean, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such Person’s knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

“U.S. GAAP” means generally accepted accounting principles in the United States as have been approved by a significant segment of the United States accounting profession, which are in effect at the time of each application for purposes of determining compliance with Article III. For the purposes of this Indenture, the term “consolidated” with respect to any Person shall mean such Person consolidated with its Subsidiaries.

“U.S. Government Securities” means securities that are (a) direct obligations of the United States of America for the timely payment of which its full faith and credit is pledged or (b) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act), as custodian with respect to any such U.S. Government Securities or a specific payment of principal of or interest on any such U.S. Government Securities held by such custodian for the account of the holder of such depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Securities

or the specific payment of principal of or interest on the U.S. Government Securities evidenced by such depository receipt.

SECTION 1.2 Other Definitions.

<u>Term</u>	<u>Defined in Section</u>
“Act”	1.5
“Authenticating Agent”	2.2
“Bankruptcy Law”	6.1
“Company Order”	2.2
“Corporate Trust Office”	3.4
“Covenant Defeasance”	8.3
“Custodian”	6.1
“Defaulted Interest”	2.13
“Event of Default”	6.1
“Legal Defeasance”	8.2
“Notice of Default”	6.1
“Paying Agent”	2.5
“Registrar”	2.5
“Security Register”	2.5
“Special Interest Payment Date”	2.13
“Special Record Date”	2.13

SECTION 1.3 Incorporation by Reference of Trust Indenture Act.

This Indenture is subject to the mandatory provisions of the TIA, which are incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

“Commission” means the SEC;

“indenture securities” means the Debt Securities;

“indenture security holder” means a Holder;

“indenture to be qualified” means this Indenture;

“indenture trustee” or “institutional trustee” means the Trustee; and

“obligor” on the Debt Securities means the Company and any other obligor on the Debt Securities.

All other TIA terms used in this Indenture that are defined by the TIA, defined in the TIA by reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

SECTION 1.4 Rules of Construction.

Unless the context otherwise requires:

- (a) a term has the meaning assigned to it;
- (b) an accounting term not otherwise defined has the meaning assigned to it in accordance with U.S. GAAP;
- (c) “or” is not exclusive;
- (d) “including” means including without limitation;
- (e) “including” words in the singular include the plural and words in the plural include the singular;
- (f) the principal amount of any noninterest bearing or other discount security at any date shall be the principal amount thereof that would be shown on a balance sheet of the issuer dated such date prepared in accordance with U.S. GAAP; and
- (g) unless otherwise indicated, all references to Articles or Sections refer to Articles or Sections of this Indenture.

SECTION 1.5 Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Act” of Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section 1.5.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to such officer the execution thereof. Where such execution is by a signer acting in a capacity other than such signer’s individual capacity, such certificate or affidavit shall also constitute sufficient proof of such signer’s authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(d) The ownership of registered Debt Securities shall be proved by the Security Register.

(e) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Debt Security shall bind every future Holder of the same Security and the holder of every Debt Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Debt Security.

(f) If the Company shall solicit from the Holders any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, by or pursuant to a Board Resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of outstanding Debt Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the outstanding Debt Securities shall be computed as of such record date; *provided* that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

ARTICLE II The Debt Securities

SECTION 2.1 Form. The Debt Securities of each series shall be issued pursuant to a Board Resolution and shall be substantially in the form or forms (not inconsistent with this Indenture) as shall be established in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements imprinted or otherwise reproduced thereon, not inconsistent with the provisions of this Indenture, as may be required to comply with any law, or with any rules of any securities exchange, all as may, consistently herewith, be determined by the Officers executing such Debt Securities as evidenced by their execution of the Debt Securities.

The Debt Securities may have notations, legends or endorsements required by law, stock exchange rule or usage. The Company and the Trustee shall approve the forms of the Debt Securities and any notation, endorsement or legend on them, which shall be attached to an indenture supplemental hereto.

SECTION 2.2 Execution and Authentication. One Officer shall sign the Debt Securities for the Company by manual or facsimile signature. If an Officer whose signature is on a Debt Security no longer holds that office at the time the Trustee authenticates the Debt Security, the Debt Security shall be valid nevertheless.

A Debt Security shall not be valid until an authorized signatory of the Trustee manually authenticates the Debt Security. The signature of the Trustee on a Debt Security shall be conclusive evidence that such Debt Security has been duly and validly authenticated and issued under this Indenture. A Debt Security shall be dated the date of its authentication.

At any time and from time to time after the execution and delivery of this Indenture, the Trustee shall authenticate and make available for delivery Debt Securities of any series in such form or forms as shall be established pursuant to Section 2.1, upon a written order of the Company signed by two Officers or by an Officer and either an assistant treasurer or an assistant secretary of the Company (the "Company Order") and delivered to the Trustee. Such Company Order shall specify the amount of the Debt Securities to be authenticated and the date on which the original issue of such Debt Securities is to be authenticated. In authenticating any Debt Securities of a series, the Trustee shall be entitled to receive, prior to the first authentication of any Debt Securities of such series, and, subject to Article VII, shall be fully protected in relying upon, unless and until such documents have been superseded or revoked:

- (a) the executed supplemental indenture referred to in Sections 2.1 and 2.3 by or pursuant to which the form or forms and terms of the Debt Securities for such series were established;
- (b) an Officers' Certificate certifying as to the form or forms and terms of the Debt Securities for such series having been established in compliance with this Indenture; and
- (c) an Opinion of Counsel substantially to the effect that (i) the form or forms and terms of the Debt Securities have been established in accordance with this Indenture; (ii) all conditions precedent set forth in this Indenture as to the authentication and delivery of such Debt Securities have been complied with; and (iii) the supplemental indenture, if applicable, and the Debt Securities have been duly authorized and, in the case of the Debt Securities, when authenticated and delivered by the Trustee and issued by the Company, in accordance with this Indenture, will constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, receivership, moratorium and other laws affecting creditors' rights generally and to general principles of equity;

provided, however, if all Debt Securities of a particular series are not to be originally issued at one time, it shall not be necessary to deliver the foregoing documents at or prior to the time of authentication of each Debt Security of such series if such documents are delivered at or prior to the authentication upon original issuance of the first Debt Security of such series to be issued.

The Trustee may appoint an agent (the "Authenticating Agent") reasonably acceptable to the Company to authenticate the Debt Securities. Unless limited by the terms of such appointment, any such Authenticating Agent may authenticate Debt Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by the Authenticating Agent. An Authenticating Agent has the same rights as a Paying Agent to deal with Holders or the Company and shall have the same privileges, rights and immunities as granted to the Trustee under Article VII.

In case the Company, pursuant to Article IV, shall be consolidated or merged with or into any other Person or shall convey, transfer, lease or otherwise dispose of its properties and assets substantially as an entirety to any Person, and the successor Person resulting from such consolidation, or surviving such merger, or into which the Company shall have been merged, or the Person which shall have received a conveyance, transfer, lease or other disposition as aforesaid, shall have executed an indenture supplemental hereto with the Trustee pursuant to Article IV, any of the Debt Securities authenticated or delivered prior to such consolidation, merger, conveyance, transfer, lease or other disposition may, from time to time, at the request of the successor Person, be exchanged for other Debt Securities of the same series executed in the name of the successor Person with such changes in phraseology and form as may be appropriate, but otherwise in substance of like tenor as the Debt Securities surrendered for such exchange and of like principal amount; and the Trustee, upon Company Order of the successor Person, shall authenticate and deliver Debt Securities as specified in such order for the purpose of such exchange. If Debt Securities shall at any time be authenticated and delivered in any new name of a successor Person pursuant to this Section 2.2 in exchange or substitution for or upon registration of transfer of any Debt Securities, such successor Person shall provide for the exchange of all Debt Securities at the time outstanding for Debt Securities authenticated and delivered in such new name.

SECTION 2.3 Amount Unlimited; Issuable in Series.

The aggregate principal amount of Debt Securities that may be authenticated and delivered under this Indenture is unlimited.

The Debt Securities may be issued in one or more series. There shall be established pursuant to a Board Resolution and in one or more indentures supplemental hereto, prior to the initial issuance of Debt Securities of any series (subject to the last sentence of this Section 2.3):

- (a) the designation of the Debt Securities of the series, including CUSIP and ISIN Numbers (if then generally in use), which shall distinguish the Debt Securities of the series from the Debt Securities of all other series;
 - (b) any limit upon the aggregate principal amount of the Debt Securities of the series that may be authenticated and delivered under this Indenture and any limitation on the ability of the Company to increase such aggregate principal amount after the initial issuance of the Debt Securities of that series (except for Debt Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, or upon redemption of, other Debt Securities of the series pursuant hereto);
 - (c) the date or dates on which the principal of and premium, if any, on the Debt Securities of the series is payable, or the method by which such date or dates shall be determined (which date or dates may be fixed or extendible);
 - (d) the rate or rates (which may be fixed or variable) at which the Debt Securities of the series shall bear interest, if any, the date or dates from which such interest shall accrue, on which such interest shall be payable and on which a record shall be taken for the
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determination of Holders to whom interest is payable and/or the method by which such rate or rates or date or dates shall be determined;

(e) if other than as provided in Section 3.4, the place or places where the principal of and any premium and interest on Debt Securities of the series shall be payable, any Debt Securities of the series may be surrendered for exchange, notices, demands to or upon the Company in respect of the Debt Securities of the series and this Indenture may be served and notice to Holders may be published;

(f) the right, if any, of the Company to redeem Debt Securities of the series, in whole or in part, at its option and the date or dates on which, the period or periods within which, the price or prices at which and any terms and conditions upon which Debt Securities of the series may be so redeemed, pursuant to any sinking fund or otherwise;

(g) the obligation, if any, of the Company to redeem, purchase or repay Debt Securities of the series pursuant to any mandatory redemption, sinking fund or analogous provisions or at the option of a Holder thereof and the date or dates on which, the price or prices at which and the period or periods within which and any of the terms and conditions upon which Debt Securities of the series shall be redeemed, purchased or repaid, in whole or in part, pursuant to such obligation;

(h) if other than denominations of \$1,000 and any integral multiple thereof, the denominations in which Debt Securities of the series shall be issuable;

(i) if other than the entire principal amount thereof, the portion of the principal amount of Debt Securities of the series which shall be payable upon declaration of acceleration of the maturity thereof;

(j) if the amount of payments of principal of, premium, if any, or interest, if any, on, any of the Debt Securities of the series may be determined with reference to an index, formula, or other method, the manner in which such amounts shall be determined;

(k) if other than the coin or currency in which the Debt Securities of the series are denominated, the coin or currency in which payment of the principal of or interest on the Debt Securities of the series shall be payable or if the amount of payments of principal of or premium, if any, or interest on the Debt Securities of the series may be determined with reference to an index based on a coin or currency other than that in which the Debt Securities of the series are denominated, the manner in which such amounts shall be determined;

(l) if payment of the principal of, premium, if any, and interest on the Debt Securities of the series shall be payable in currency or currencies other than the currency of the United States, the manner in which any such currency shall be valued against other currencies in which any other Debt Securities shall be payable;

(m) whether the Debt Securities of the series or any portion thereof will be issuable as Global Securities, any restrictions applicable to the offer and, if other than as provided herein, the terms upon which Global Securities of any series may be exchanged for definitive Debt Securities of such series;

(n) whether and under what circumstances the Company will pay additional amounts on the Debt Securities of the series held by non-U.S. persons in respect of any tax, assessment or governmental charge withheld or deducted and, if so, whether the Company will have the option to redeem such Debt Securities rather than pay such additional amounts;

(o) if the Debt Securities of the series are to be issuable in definitive form (whether upon original issue or upon exchange of a temporary Debt Security of such series) only upon receipt of certain certificates or other documents or satisfaction of other conditions, the form and terms of such certificates, documents or conditions;

(p) if there is more than one trustee or a trustee other than The Bank of New York, any trustees, and if not the trustee, Depositories, Authenticating Agents, Paying Agents, transfer agents or the Registrar or any other agents with respect to the Debt Securities of the series;

(q) provisions, if any, for the defeasance of the Debt Securities of the series (including provisions permitting defeasance of less than all Debt Securities of the series), which provisions may be in addition to, in substitution for, or in modification of (or any combination of the foregoing) the provisions of Article VIII;

(r) if the Debt Securities of the series are issuable in whole or in part as one or more Global Securities, the identity of the Depository for such Global Security or Securities;

(s) any other events of default or covenants with respect to the Debt Securities of the series that are not inconsistent with this Indenture;

(t) the form of the Debt Securities of the series (including legends, if any, to be imprinted thereon and the circumstances, if any, which require the imprinting of such legends); and

(u) any other terms of the Debt Securities of the series (which terms shall not be inconsistent with the provisions of this Indenture).

All Debt Securities of any one series and coupons, if any, appertaining thereto shall be substantially identical, except as to denomination and except as otherwise set forth in any such indenture supplemental hereto. All Debt Securities of any one series need not be issued at the same time and may be issued from time to time, consistent with the terms of this Indenture, if so provided in any such indenture supplemental hereto, and any forms and terms of Debt Securities to be issued from time to time may be completed and established from time to time prior to the issuance thereof by procedures described in such supplemental indenture.

SECTION 2.4 Book-Entry Provisions for Global Securities.

If the Company shall establish, pursuant to or as contemplated by Section 2.3, that the Debt Securities of a series are to be issued in whole or in part in the form of one or more Global Securities, then the Company shall execute and the Trustee shall, in accordance with Section 2.2, authenticate and deliver one or more Global Securities in temporary or permanent

form that (i) shall represent and shall be denominated in an amount equal to the aggregate principal amount of the outstanding Debt Securities of such series to be represented by one or more Global Securities, (ii) shall be registered, if in registered form, in the name of the Depository for such Global Security or Global Securities or the nominee of such Depository, (iii) shall be delivered by the Trustee to such Depository or pursuant to such Depository's instruction, and (iv) shall bear a legend as set forth in an indenture supplemental hereto.

Each Depository designated pursuant to or as contemplated by Section 2.3 for a Global Security to be delivered in the United States must, at the time of its designation and at all times while it serves as Depository, be a clearing agency registered under the Exchange Act and any other applicable statute or regulation.

If at any time the Depository for the Debt Securities of a series notifies the Company that it is unwilling or unable to continue as Depository for the Debt Securities of such series, or the Depository for the Debt Securities of a series ceases to be a clearing agency registered under the Exchange Act and any other applicable statute or regulation, at a time when the Depository is required to be so registered in order to act as a depository, and a successor depository for the Debt Securities of such series is not appointed by the Company within 90 days after the Company receives such notice, the Company's election pursuant to Section 2.3 shall no longer be effective with respect to the Debt Securities of such series and the Company shall execute and the Trustee, upon receipt of a Company Order for the authentication and delivery of definitive Debt Securities of such series, shall authenticate and deliver as specified in such written order(s), Debt Securities of such series in definitive form in an aggregate principal amount equal to the principal amount of the Global Security or Securities representing such series in exchange for such Global Security or Securities.

The Company may at any time and in its sole discretion determine that the Debt Securities of any series issued in the form of one or more Global Securities shall no longer be represented by such Global Security or Securities. In such event, the Company shall execute and the Trustee, upon receipt of a Company Order for the authentication and delivery of definitive Securities of such series, shall authenticate and deliver as specified in such written order(s), Debt Securities of such series in definitive form and in an aggregate principal amount equal to the principal amount of the Global Security or Securities representing such series in exchange for such Global Security or Securities.

If specified pursuant to Section 2.3 with respect to a series of Debt Securities, the Depository for such series of Debt Securities may surrender a Global Security for such series of Debt Securities in exchange in whole or in part for Debt Securities of such series in definitive form on such terms as are acceptable to the Company and such Depository. Thereupon, the Company shall execute and the Trustee shall authenticate and deliver, without service charge:

(a) to each Person specified by such Depository, a new Debt Security or Debt Securities of the same series, of any authorized denomination as requested by such Person, in aggregate principal amount equal to, and in exchange for, such Person's beneficial interest in the Global Security; and

(b) to such Depository, a new Global Security in a denomination equal to the difference, if any, between the principal amount of the surrendered Global Security and the aggregate principal amount of Debt Securities so delivered to Holders thereof.

In any such exchange, the Company shall execute and the Trustee shall authenticate and deliver, Debt Securities in definitive registered form in authorized denominations.

Upon the exchange of a Global Security for Debt Securities in definitive form, such Global Security shall be cancelled by the Trustee. Debt Securities issued in exchange for a Global Security pursuant to [Section 2.8](#) shall be registered in such names in writing and in such authorized denominations as the Depository for such Global Security shall instruct the Trustee. The Trustee shall deliver such Debt Securities to the Persons in whose names such Debt Securities are so registered.

SECTION 2.5 Registrar and Paying Agent. The Company shall maintain an office or agency where Debt Securities may be presented for registration of transfer or for exchange (the “[Registrar](#)”) and an office or agency where Debt Securities may be presented for payment (the “[Paying Agent](#)”). The Registrar shall keep a register of the Debt Securities and of their transfer and exchange (the “[Security Register](#)”). The Company may have one or more co-registrars and one or more additional paying agents with respect to any series of Debt Securities. The term “[Paying Agent](#)” includes any additional paying agent.

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent or co-registrar not a party to this Indenture, which shall incorporate the terms of the TIA. The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall promptly notify the Trustee in writing of the name and address of each such agent. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to [Section 7.7](#) and the privileges, rights and immunities granted to the Trustee pursuant to [Article VII](#). The Company or any of its Subsidiaries may act as Paying Agent, Registrar, co-registrar or transfer agent.

The Company initially appoints the Trustee as Registrar and Paying Agent for the Debt Securities.

SECTION 2.6 Paying Agent To Hold Money in Trust. By at least 10:00 a.m. (New York City time) on the date on which any principal of or interest on any Debt Security is due and payable, the Company shall deposit with the Paying Agent a sum sufficient to pay such principal or interest when due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that such Paying Agent shall hold in trust for the benefit of Holders or the Trustee all money held by such Paying Agent for the payment of principal of or interest on the Debt Securities and shall promptly notify the Trustee in writing of any default by the Company in making any such payment. If the Company or a Subsidiary acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent (other than the Trustee) to pay all money held by it to the Trustee and to account for any funds disbursed by such Paying Agent. Upon complying with this [Section 2.6](#), the Paying Agent (if other than the Company or a Subsidiary)

shall have no further liability for the money delivered to the Trustee. Upon any bankruptcy, reorganization or similar proceeding with respect to the Company, the Trustee shall serve as Paying Agent for the Debt Securities.

SECTION 2.7 Holder Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders of each series of Debt Securities and shall otherwise comply with TIA Section 312(a). If the Trustee is not the Registrar, or to the extent otherwise required under the TIA, the Company shall furnish to the Trustee, in writing at least seven Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders of a particular series of Debt Securities and the Company shall otherwise comply with TIA Section 312(a).

SECTION 2.8 Transfer and Exchange.

(a) At the option of the Holder, Debt Securities of any series (except a Global Security) may be exchanged for other Debt Securities of the same series and of like tenor, of any authorized denominations and of a like aggregate principal amount and Stated Maturity upon surrender of the Debt Securities to be exchanged at an office or agency maintained in accordance with Section 3.4. Whenever any Debt Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver the Debt Securities that the Holder making the exchange is entitled to receive.

Notwithstanding any other provision of this Section 2.8, unless and until it is exchanged in whole or in part for Debt Securities in definitive registered form, a Global Security representing all or a portion of the Debt Securities of a series may not be transferred except as a whole by the Depository to the nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or to a nominee of such successor Depository.

The Company shall not be required (i) to issue, register the transfer of or exchange Debt Securities of any particular series during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of Debt Securities of such series selected for redemption and ending at the close of business on the day of such mailing, (ii) to register the transfer of or to exchange any Debt Security so selected for redemption in whole or in part, except the unredeemed portion of any Debt Security being redeemed in part or (iii) to register the transfer of or to exchange any Debt Security between a record date for the payment of interest on such Debt Security and the next succeeding interest payment date.

(b) Obligations with Respect to Transfers and Exchanges of Debt Securities.

(i) Upon surrender for registration of transfer of any Debt Security of any series at an office or agency maintained in accordance with Section 3.4, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Debt Securities of the same series and of like tenor, of any authorized denominations and of a like aggregate principal amount and Stated Maturity.

(ii) No service charge shall be made to a Holder for any registration of transfer or exchange, but the Company may require from a Holder payment of a sum sufficient to cover any transfer tax, assessments or similar governmental charge payable in connection therewith (other than any such transfer taxes, assessments or similar governmental charges payable upon exchange or transfer pursuant to Section 9.5).

(iii) The Registrar or co-registrar shall not be required (A) to issue, register the transfer of or exchange any Debt Security of any particular series during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of Debt Securities of such series selected for redemption and ending at the close of business on the day of such mailing, (B) to register the transfer of or to exchange any Debt Security so selected for redemption in whole or in part, except the unredeemed portion of any Debt Security being redeemed in part, or (C) to register the transfer of or to exchange any Debt Security between a record date for the payment of interest on such Debt Security and the next succeeding interest payment date.

(iv) Prior to the due presentation for registration of transfer of any Debt Security, the Company, the Trustee, the Paying Agent, the Registrar or any co-registrar may deem and treat the Person in whose name a Debt Security is registered as the absolute owner of such Debt Security for the purpose of receiving payment of principal of and interest on such Debt Security and for all other purposes whatsoever, whether or not such Debt Security is overdue, and neither the Company, the Trustee, the Paying Agent, the Registrar nor any co-registrar shall be affected by notice to the contrary.

(v) All Debt Securities issued upon any transfer or exchange pursuant to the terms of this Indenture shall evidence the same debt and shall be entitled to the same benefits under this Indenture as the Debt Securities surrendered upon such transfer or exchange.

(vi) Every Debt Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by the Holder thereof or his attorney duly authorized in writing.

(vii) Each Holder of a Debt Security agrees to indemnify the Company, the Trustee, the Paying Agent and the Registrar against any liability that may result from the transfer, exchange or assignment of such Holder's Debt Security in violation of any provision of this Indenture, any indenture supplemental hereto and/or applicable United States federal or state securities law.

(viii) The Trustee, any Paying Agent or Registrar and the Company shall not have any responsibility or liability for any action taken or not taken by the Depositary.

(f) No Obligation of the Trustee. The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Debt Security (including any transfers between or among Depositary participants, members or beneficial owners in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly

required by, the terms of this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

SECTION 2.9 Mutilated, Destroyed, Lost or Stolen Debt Securities. If a mutilated Debt Security of any series is surrendered to the Registrar or if the Holder of a Debt Security claims that the Debt Security has been lost, destroyed or wrongfully taken, the Company shall execute and, upon Company Order, the Trustee shall authenticate a replacement Debt Security of the same series if the requirements of Section 8-405 of the Uniform Commercial Code are met, as determined by the Company, and the Holder satisfies any other reasonable requirements of the Trustee. Such Holder shall furnish an indemnity bond sufficient in the judgment of the Company and the Trustee to protect the Company, the Trustee, the Paying Agent, the Registrar and any co-registrar from any loss that any of them may suffer if a Debt Security is replaced, and, in the absence of notice to the Company or the Trustee that such Debt Security has been acquired by a bona fide purchaser, the Company shall execute and upon Company Order the Trustee shall authenticate and make available for delivery, in exchange for any such mutilated Debt Security or in lieu of any such destroyed, lost or stolen Debt Security, a new Debt Security of the same series of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Debt Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Debt Security of the same series, pay such Debt Security.

Upon the issuance of any new Debt Security under this Section 2.9, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) in connection therewith.

Every new Debt Security issued pursuant to this Section 2.9 in lieu of any mutilated, destroyed, lost or stolen Debt Security shall constitute an original additional contractual obligation of the Company and any other obligor upon the Debt Securities, whether or not the mutilated, destroyed, lost or stolen Debt Security shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Debt Securities of the same series duly issued hereunder.

The provisions of this Section 2.9 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Debt Securities.

SECTION 2.10 Outstanding Debt Securities. Debt Securities of any series outstanding at any time are all Debt Securities of such series authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation, those paid pursuant to Section 2.9 and those described in this Section 2.10 as not outstanding. A Debt Security ceases to be outstanding in the event the Company or a Subsidiary holds the Debt Security; *provided, however*, that (a) for purposes of determining which Debt Securities of a particular series are outstanding for consent or voting purposes hereunder, Debt Securities of any series shall cease to be outstanding in the event the Company or an Affiliate of the Company holds the Debt Security of such series and (b) in determining whether the Trustee shall be protected in making a determination whether the Holders of the requisite principal amount of outstanding Debt Securities of such series are

present at a meeting of Holders of Debt Securities of such series for quorum purposes or have consented to or voted in favor of any request, demand, authorization, direction, notice, consent, waiver, amendment or modification hereunder, or relying upon any such quorum, consent or vote, only Debt Securities of such series that a Trust Officer of the Trustee actually knows to be held by the Company or an Affiliate of the Company shall not be considered outstanding.

If a Debt Security is replaced pursuant to Section 2.9, it ceases to be outstanding unless the Trustee and the Company receive proof satisfactory to them that the replaced Debt Security is held by a bona fide purchaser.

If the Paying Agent segregates and holds in trust, in accordance with this Indenture, on a Redemption Date or maturity date money sufficient to pay all principal and interest payable on that date with respect to the Debt Securities of a particular series (or portions thereof) to be redeemed or maturing, as the case may be, and the Paying Agent is not prohibited from paying such money to the Holders on that date pursuant to the terms of this Indenture, then on and after that date such Debt Securities (or portions thereof) cease to be outstanding and interest on them ceases to accrue.

SECTION 2.11 Temporary Debt Securities. Until definitive Debt Securities of any series are ready for delivery, the Company may execute and, upon Company Order, the Trustee shall authenticate temporary Debt Securities of such series. Temporary Debt Securities of any series shall be substantially in the form of definitive Debt Securities of such series but may have variations that the Company considers appropriate for temporary Debt Securities. If temporary Debt Securities of any series are issued, the Company shall execute and, upon Company Order, the Trustee shall authenticate definitive Debt Securities of such series without unreasonable delay. After the preparation of definitive Debt Securities of any series, the temporary Debt Securities of such series shall be exchangeable for definitive Debt Securities of such series upon surrender of such temporary Debt Securities at any office or agency maintained by the Company for that purpose and such exchange shall be without charge to the Holder of such temporary Debt Securities. Upon surrender for cancellation of any one or more temporary Debt Securities of any series, the Company shall execute, and the Trustee shall authenticate and make available for delivery in exchange therefor, one or more definitive Debt Securities of such series representing an equal principal amount of Debt Securities of such series. Until so exchanged, the Holder of temporary Debt Securities of any series shall in all respects be entitled to the same benefits under this Indenture as a holder of definitive Debt Securities of such series.

SECTION 2.12 Cancellation. The Company at any time may deliver Debt Securities previously authenticated and delivered hereunder to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Debt Securities surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel and return to the Company all Debt Securities surrendered for registration of transfer, exchange, payment or cancellation. The Company may not issue new Debt Securities to replace Debt Securities it has paid or delivered to the Trustee for cancellation for any reason other than in connection with a transfer or exchange.

SECTION 2.13 Payment of Interest; Defaulted Interest. Interest on any Debt Security that is payable, and is punctually paid or duly provided for, on any interest payment date shall be paid to the Person in whose name such Debt Security (or one or more predecessor Debt

Securities) is registered at the close of business on the regular record date for such interest at the office or agency of the Company maintained for such purpose pursuant to Section 2.5.

Any interest on any Debt Security of any series that is payable, but is not paid when the same becomes due and payable and such nonpayment continues for a period of 30 days shall forthwith cease to be payable to the Holder thereof on the regular record date by virtue of having been such Holder, and such defaulted interest and (to the extent lawful) interest on such defaulted interest at the rate borne by the Debt Securities of such series (such defaulted interest and interest thereon herein collectively called "Defaulted Interest") shall be paid by the Company, at its election in each case, as provided in clause (a) or (b) below:

(a) The Company may elect to make payment of any Defaulted Interest on the Debt Securities of any series to the Persons in whose names such Debt Securities (or their respective predecessor Debt Securities) are registered at the close of business on a Special Record Date (as defined below) for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Debt Security of such series and the date (not less than 30 days after such notice) of the proposed payment (the "Special Interest Payment Date"), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a record date (the "Special Record Date") for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the Special Interest Payment Date. The Trustee shall promptly notify the Company of such Special Record Date, and in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date and Special Interest Payment Date therefor to be given in the manner provided for in Section 10.2, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date and Special Interest Payment Date therefor having been so given, such Defaulted Interest shall be paid on the Special Interest Payment Date to the Persons in whose names the Debt Securities (or their respective predecessor Debt Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (b).

(b) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Debt Securities may be listed, and upon such notice as may be required by such exchange, if, after written notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section 2.13, each Debt Security of any series delivered under this Indenture upon registration of, transfer of or in exchange for or in lieu of any other Debt Security of such series shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Debt Security of such series.

SECTION 2.14 Computation of Interest. Interest on the Debt Securities shall be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 2.15 CUSIP and ISIN Numbers. The Company in issuing Debt Securities of any series may use “CUSIP” and “ISIN” numbers (if then generally in use) and, if so, the Trustee shall use “CUSIP” and “ISIN” numbers in notices of redemption as a convenience to Holders; *provided, however*, that any such notice by the Company or the Trustee may state that no representation is made as to the correctness of such numbers either as printed on such Debt Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on such Debt Securities, and any such redemption shall not be affected by any defect in or omission of such CUSIP or ISIN numbers. The Company shall promptly notify the Trustee in writing of any change in the CUSIP and ISIN numbers.

ARTICLE III Covenants

The Company agrees to be bound by the following covenants for the benefit of the Holders of the Debt Securities of each series issued under this Indenture:

SECTION 3.1 Payment of Debt Securities. The Company shall promptly pay the principal of and interest on the Debt Securities of the applicable series on the dates and in the manner provided in the Debt Securities of that series and in this Indenture. Principal and interest shall be considered paid on the date due if on such date the Trustee or the Paying Agent holds in accordance with this Indenture money sufficient to pay all principal and interest then due and the Trustee or the Paying Agent, as the case may be, is not prohibited from paying such money to the Holders on that date.

The Company shall pay interest on overdue principal at the rate specified therefor in the Debt Securities of the applicable series, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

The principal of and premium, if any, and interest on the Debt Securities shall be payable at the office or agency of the Company maintained for such purpose pursuant to Section 3.4; *provided, however*, that, at the option of the Company, each installment of interest may be paid by check mailed to addresses of the Persons entitled thereto as such addresses shall appear on the Security Register. Payments in respect of Debt Securities represented by a Global Security (including principal and interest) shall be made by wire transfer of immediately available funds to the accounts specified by the Depositary. Payments in respect of Debt Securities represented by definitive Debt Securities (including principal and interest) held by a Holder of at least \$1,000,000 aggregate principal amount of Debt Securities represented by definitive Debt Securities shall be made by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such Holder elects payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 15 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion).

Notwithstanding anything to the contrary contained in this Indenture, the Company may, to the extent it is required to do so by law, deduct or withhold income or other similar taxes imposed by the United States of America from principal or interest payments hereunder.

SECTION 3.2 Limitation on Liens.

(a) The Company will not, and will not permit any Subsidiary to, directly or indirectly, as security for any Debt, mortgage, pledge or create or permit to exist any lien on any shares of stock, indebtedness or other obligations of a Subsidiary or any Principal Property, whether such shares of stock, indebtedness or other obligations of a Subsidiary or Principal Property are owned at the date of the Indenture or hereafter acquired, unless the Company secures or causes to be secured any outstanding Debt Securities of the applicable series equally and ratably with all Debt secured by such mortgage, pledge or lien, so long as that Debt shall be secured; *provided, however*, that the foregoing limitation shall not apply in the case of (i) the creation of any mortgage, pledge or other lien on any shares of stock, indebtedness or other obligations of a Subsidiary or a Principal Property acquired after the date that the Debt Securities of the applicable series are first issued (including acquisitions by way of merger or consolidation) by the Company or a Subsidiary contemporaneously with such acquisition, or within 120 days thereafter, to secure or provide for the payment or financing of any part of the purchase price thereof, or the assumption of any mortgage, pledge or other lien upon any shares of stock, indebtedness or other obligations of a Subsidiary or a Principal Property acquired after such date and existing at the time of such acquisition, or the acquisition of any shares of stock, indebtedness or other obligations of a Subsidiary or a Principal Property subject to any mortgage, pledge or other lien without the assumption thereof, provided that any mortgage, pledge or lien referred to in this clause (i) shall attach only to the shares of stock, indebtedness or other obligations of a Subsidiary or a Principal Property so acquired and fixed improvements thereon, (ii) any mortgage, pledge or other lien on any shares of stock, indebtedness or other obligations of a Subsidiary or a Principal Property existing on the date that the Debt Securities of the applicable series are first issued, (iii) any mortgage, pledge or other lien on any shares of stock, indebtedness or other obligations of a Subsidiary or a Principal Property in favor of the Company or any Subsidiary, (iv) any mortgage, pledge or other lien on a Principal Property being constructed or improved securing Debt incurred to finance the construction or improvements, (v) any mortgage, pledge or other lien on shares of stock, indebtedness or other obligations of a Subsidiary or a Principal Property incurred in connection with the issuance by a state or political subdivision thereof of any securities the interest on which is exempt from federal income taxes by virtue of Section 103 of the United States Internal Revenue Code of 1986, as amended, or any other laws and regulations in effect at the time of such issuance and (vi) any renewal of or substitution for any mortgage, pledge or other lien permitted by any of the preceding clauses (i) through (v), provided, in the case of a mortgage, pledge or other lien permitted under clause (i), (ii) or (iv), the Debt secured is not increased nor the lien extended to any additional assets.

(b) Notwithstanding the foregoing paragraph (a), the Company or any Subsidiary may create or assume liens in addition to those permitted by the foregoing paragraph (a), and renew, extend or replace such liens, provided that at the time of such creation, assumption, renewal, extension or replacement, and after giving effect thereto, Exempted Debt with respect to the applicable series of the Debt Securities does not exceed 15% of Consolidated Net Tangible Assets.

SECTION 3.3 Limitation on Sale Leaseback Transactions.

(a) The Company will not, and will not permit, any Subsidiary to, sell or transfer, directly or indirectly, except to the Company or a Subsidiary, a Principal Property as an entirety, or any substantial portion thereof, with the intention of taking back a lease of all or part of such property except a lease for a period of three years or less at the end of which it is intended that the use of such property by the lessee will be discontinued, provided that, notwithstanding the foregoing, the Company or any Subsidiary may sell a Principal Property and lease it back for a longer period (i) if the Company or such Subsidiary would be entitled, pursuant to Section 3.2, to create a mortgage on the property to be leased securing Debt in an amount equal to the Attributable Debt with respect to the sale and leaseback transaction without equally and ratably securing the outstanding Debt Securities of the applicable series or (ii) if (A) the Company promptly informs the Trustee of such transactions, (B) the net proceeds of such transaction are at least equal to the fair value (as determined by a Board Resolution delivered to the Trustee) of such property and (C) the Company causes an amount equal to the net proceeds of the sale to be applied to the retirement (whether by redemption, cancellation after open-market purchases, or otherwise), within 120 days after receipt of such proceeds, of Funded Debt having an outstanding principal amount equal to the net proceeds.

(b) Notwithstanding the foregoing paragraph (a), the Company or any Subsidiary may enter into sale and leaseback transactions in addition to those permitted by the foregoing paragraph (a), and without any obligation to retire any outstanding Funded Debt, provided that at the time of entering into such sale and leaseback transactions and after giving effect thereto, Exempted Debt with respect to the applicable series of the Debt Securities does not exceed 15% of Consolidated Net Tangible Assets.

SECTION 3.4 Maintenance of Office or Agency. The Company shall maintain an office or agency where the Debt Securities of the applicable series may be presented or surrendered for payment, where, if applicable, the Debt Securities of the applicable series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Debt Securities of the applicable series and this Indenture may be served. The Corporate Trust Office of the Trustee shall be such office or agency of the Company, unless the Company shall designate and maintain some other office or agency for one or more of such purposes. The Company will give prompt written notice to the Trustee of any change in the location of any such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Debt Securities of the applicable series may be presented or surrendered for any or all such purposes and may from time to time rescind any such designation. The Company shall give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such other office or agency.

SECTION 3.5 Compliance Certificate. The Company shall deliver to the Trustee within 120 days after the end of each Fiscal Year of the Company an Officers' Certificate stating that in the course of the performance by the signers of their duties as Officers of the Company they

would normally have knowledge of any Default or Event of Default with respect to any series of the Debt Securities and whether or not the signers know of any Default or Event of Default with respect to any series of the Debt Securities that occurred during such period. If they do, the certificate shall describe the Default or Event of Default, its status and what action the Company is taking or proposes to take with respect thereto. The Company also shall comply with TIA Section 314(a)(4).

SECTION 3.6 Statement by Officers as to Default. The Company shall deliver to the Trustee within 10 days after the Company becomes aware of the occurrence of any Event of Default with respect to any series of the Debt Securities or an event that, with notice or the lapse of time or both, would constitute an Event of Default with respect to any series of the Debt Securities, an Officers' Certificate setting forth the details of such Default or Event of Default and the action that the Company proposes to take with respect thereto.

SECTION 3.7 Further Instruments and Acts. Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

ARTICLE IV Successor Company

SECTION 4.1 Merger, Consolidation or Sale of All or Substantially All Assets of the Company.

(a) The Company shall not consolidate with or merge into, or transfer, directly or indirectly, all or substantially all of its assets to another corporation or other Person unless (a) the resulting, surviving or transferee corporation or other Person assumes by supplemental indenture all of the obligations of the Company under each series of Debt Securities and this Indenture, (b) immediately after giving effect to such transaction, no Event of Default, and no circumstances that, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing, and (c) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture comply with this Indenture, and thereafter all such obligations of the Company shall terminate.

(b) The resulting, surviving or transferee corporation will succeed to and be substituted for the Company with the same effect as if it had been named herein as a party hereto, and thereafter the predecessor corporation will be relieved of all obligations and covenants under this Indenture and the Debt Securities.

ARTICLE V Redemption of Securities

SECTION 5.1 Optional Redemption. The Debt Securities of any series may be redeemed, at the option of the Company, at any time in whole, or from time to time in part, subject to the conditions and at the redemption prices specified by the terms of that series, together with accrued and unpaid interest to the Redemption Date.

SECTION 5.2 Applicability of Article. Redemption of the Debt Securities of any series at the election of the Company or otherwise, as permitted by the terms of such series of Debt Securities, shall be made in accordance with such terms and this Article V; *provided, however*, that, notwithstanding anything to the contrary in this Article V, if any such terms of a series of Debt Securities shall conflict with any provisions of this Article V, the terms of such series shall govern.

SECTION 5.3 Election to Redeem; Notice to Trustee. The election of the Company to redeem any of the Debt Securities of any series pursuant to Section 5.1 shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company, the Company shall, upon not later than the earlier of the date that is 30 days prior to the Redemption Date fixed by the Company or the date on which notice is given to the Holders (except as provided in Section 5.5 or unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of the Redemption Date, the series of the Debt Securities to be redeemed and the principal amount of the Debt Securities of such series to be redeemed and shall deliver to the Trustee such documentation and records as shall enable the Trustee to select such Debt Securities to be redeemed pursuant to Section 5.4.

SECTION 5.4 Selection by Trustee of Debt Securities to Be Redeemed. If less than all of the Debt Securities of any series are to be redeemed at the option of the Company (unless all of the Debt Securities of such series are to be redeemed), the particular Debt Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee from the outstanding Debt Securities of such series not previously called for redemption, in compliance with the requirements of the principal national securities exchange, if any, on which such Debt Securities are listed, or, if such Debt Securities are not so listed, then on a *pro rata* basis, by lot or by such other method as the Trustee shall deem fair and appropriate (and in such manner as complies with applicable legal requirements) and which may provide for the selection for redemption of portions of the principal of the Debt Securities of such series; *provided, however*, that (a) Debt Securities and portions thereof that the Trustee selects shall be in amounts of \$1,000 or an integral multiple of \$1,000 and (b) no such partial redemption shall reduce the portion of the principal amount of a Debt Security not redeemed to less than \$1,000.

The Trustee shall promptly notify the Company in writing of the Debt Securities selected for redemption and, in the case of any Debt Securities selected for partial redemption, the principal amount thereof to be redeemed. If the Debt Securities of any series to be redeemed consist of Debt Securities having different dates on which the principal is payable or different rates of interest, or different methods by which interest may be determined or have any other terms, then the Company may, by written notice to the Trustee, direct that the Debt Securities of such series to be redeemed shall be selected from among the groups of such Debt Securities having specified terms and the Trustee shall thereafter select the particular Debt Securities to be redeemed in the manner set forth in the preceding paragraph from among the group of such Debt Securities so specified.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to redemption of Debt Securities shall relate, in the case of any Debt Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Debt Security which has been or is to be redeemed.

SECTION 5.5 Notice of Redemption. Notice of redemption shall be given in the manner provided for in Section 10.2 not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Debt Securities to be redeemed. The Trustee shall give notice of redemption in the Company's name and at the Company's expense; *provided, however*, that the Company shall deliver to the Trustee, at least 15 days prior to the date on which such notice is to be given, an Officers' Certificate requesting that the Trustee give such notice and attaching a copy of such notice.

All notices of redemption shall state:

- (a) the Redemption Date;
 - (b) the redemption price and the amount of accrued interest to the Redemption Date, if any, payable as provided in Section 5.7;
 - (c) if less than all outstanding Debt Securities of any series are to be redeemed, the identification of the particular Debt Securities of such series (or portion thereof) to be redeemed, as well as the aggregate principal amount of Debt Securities of such series to be redeemed and the aggregate principal amount of Debt Securities of such series to be outstanding after such partial redemption;
 - (d) in case any Debt Security of a series is to be redeemed in part only, the notice which relates to such Debt Security shall state that on and after the Redemption Date, upon surrender of such Debt Security, the Holder will receive, without charge, a new Debt Security or Debt Securities of the same series and tenor in authorized denominations for the principal amount thereof remaining unredeemed;
 - (e) that on the Redemption Date the redemption price (and accrued interest, if any, to the Redemption Date payable as provided in Section 5.7) will become due and payable upon each such Debt Security, or the portion thereof, to be redeemed, and, unless the Company defaults in making the redemption payment, that interest on Debt Securities called for redemption (or the portion thereof) will cease to accrue on and after said date;
 - (f) the place or places where such Debt Securities are to be surrendered for payment of the redemption price and accrued interest, if any;
 - (g) the name and address of the Paying Agent;
 - (h) that Debt Securities called for redemption must be surrendered to the Paying Agent to collect the redemption price;
 - (i) the CUSIP and ISIN numbers, and that no representation is made as to the accuracy or correctness of the CUSIP and ISIN numbers, if any, listed in such notice or printed on such Debt Securities; and
 - (j) the paragraph of the Debt Securities pursuant to which the Debt Securities are to be redeemed.
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SECTION 5.6 Deposit of Redemption Price. Prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 2.6) an amount of money sufficient to pay the redemption price of, and accrued interest on, all the Debt Securities that are to be redeemed on that date.

SECTION 5.7 Debt Securities Payable on Redemption Date. Notice of redemption having been given as aforesaid, the Debt Securities so to be redeemed shall, on the Redemption Date, become due and payable at the redemption price therein specified (together with accrued interest, if any, to the Redemption Date), and from and after such date (unless the Company shall default in the payment of the redemption price and accrued interest) such Debt Securities shall cease to bear interest. Upon surrender of any such Debt Security for redemption in accordance with said notice, such Debt Security shall be paid by the Company at the redemption price, together with accrued interest, if any, to the Redemption Date (subject to the rights of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

If any Debt Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in such Debt Security.

SECTION 5.8 Debt Securities Redeemed in Part. Any Debt Security that is to be redeemed only in part pursuant to the provisions of this Article V shall be surrendered at the office or agency of the Company maintained for such purpose pursuant to Section 3.4 (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and make available for delivery to the Holder of such Debt Security at the expense of the Company, a new Debt Security or Debt Securities of the same series and tenor, of any authorized denomination as requested by such Holder, in an aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Debt Security so surrendered, *provided* that each such new Debt Security will be in a principal amount of \$1,000 or integral multiple thereof.

ARTICLE VI Defaults and Remedies

SECTION 6.1 Events of Default. Each of the following shall constitute an "Event of Default" with respect to the Debt Securities of each series:

- (a) the Company defaults in any payment of interest on any Debt Security of such series when the same becomes due and payable, and such default continues for a period of 30 days;
 - (b) the Company defaults in the payment of the principal on any Debt Security of such series when the same becomes due and payable at its Stated Maturity, upon optional redemption, upon declaration or otherwise;
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(c) the Company defaults in the performance of or breaches any covenant or agreement in this Indenture or under the Debt Securities of such series or the supplemental indenture related to the Debt Securities of such series, other than those referred to in paragraph (a) or (b) above, and such default continues for 30 days after written notice (which notice must specify the default, demand that it be remedied and state that the notice is a “Notice of Default”) to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the outstanding Debt Securities of such series;

(d) the Company or any of its Subsidiaries fails to pay, in accordance with its terms and when payable, any of the principal, interest or additional amounts, if any, on any Debt (including the Debt Securities, other than the Debt Securities, if any, with respect to which the failure to pay principal, interest or additional interest is also an Event of Default under Section 6.1(a), 6.1(b) or both) having, in the aggregate, a then-outstanding principal amount in excess of \$50,000,000, at the later of final maturity or the expiration of any applicable grace period or (ii) the maturity of Debt in an aggregate principal amount in excess of \$50,000,000 is accelerated, if such acceleration results from a default under the instrument giving rise to or securing such Debt; *provided, however*, that, subject to Section 7.1, the Trustee will not be deemed to have knowledge of such nonpayment or other default unless either (1) a Responsible Officer of the Trustee has actual knowledge of nonpayment or other default, or (2) the Trustee has received written notice thereof from the Company, from any Holder, from the holder of any such Debt or from the trustee under the agreement or instrument relating to such Debt;

(e) the Company pursuant to or within the meaning of any Bankruptcy Law (as defined below):

- (i) commences a voluntary case;
- (ii) consents to the entry of an order for relief against it in an involuntary case;
- (iii) consents to the appointment of a Custodian (as defined below) of it or for any substantial part of its property; or
- (iv) makes a general assignment for the benefit of its creditors; or

(f) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

- (i) is for relief against the Company in an involuntary case;
- (ii) appoints a Custodian of the Company for all or substantially all of the Company’s property; or
- (iii) orders the winding up or liquidation of the Company; and

in each case the order or decree remains unstayed and in effect for 60 days.

The foregoing will constitute Events of Default whatever the reason for any such Event of Default and whether it is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

The term “Bankruptcy Law” means Title 11, United States Code, as amended from time to time, or any similar federal or state law for the relief of debtors. The term “Custodian” means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

SECTION 6.2 Acceleration. If an Event of Default described in clauses (a), (b), (c) and (d) of Section 6.1 occurs with respect to any series of Debt Securities and is continuing, the Trustee, or the Holders of at least 25% in outstanding principal amount of the Debt Securities of such series, by notice to the Company, may, and the Trustee at the written request of such Holders shall, declare the principal of and premium and accrued and unpaid interest, if any, on all the Debt Securities of such series to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest shall be immediately due and payable. If an Event of Default described in clauses (e) and (f) above occurs and is continuing, the principal of and premium and accrued and unpaid interest on all of the Debt Securities will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders of the Debt Securities of such series.

SECTION 6.3 Other Remedies. If an Event of Default occurs with respect to any series of Debt Securities and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest on the Debt Securities of such series or to enforce the performance of any provision of the Debt Securities of such series or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Debt Securities of such series or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder of the Debt Securities of such series in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

SECTION 6.4 Waiver of Existing Defaults. The Holders of a majority in principal amount of the outstanding Debt Securities of any series by written notice to the Trustee may (a) waive, by their consent (including, without limitation consents obtained in connection with a purchase of, or tender offer or exchange offer for, Debt Securities of such series), an existing Default or Event of Default with respect to the Debt Securities of that series and its consequences except (i) a Default or Event of Default in the payment of the principal of or interest on a Debt Security of such series or (ii) a Default or Event of Default in respect of a provision that under Section 9.2 cannot be amended without the consent of each Holder of the Debt Securities of such series affected and (b) rescind any such acceleration with respect to the Debt Securities of such series and its consequences if (i) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (ii) all existing Events of Default, other than the nonpayment of the principal of and interest on the Debt Securities of such series that have become due solely by such declaration of acceleration, have been cured or waived. When a Default or Event of Default is waived for any series of Debt Securities, it is deemed cured, but no such waiver shall

extend to any subsequent or other Default or Event of Default of such or any other series or impair any consequent right.

SECTION 6.5 Control by Majority. The Holders of a majority in principal amount of the outstanding Debt Securities of any series may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee, as such remedy, trust or power relates to the Debt Securities of that series. The Trustee may, however, refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 7.1 and Section 7.2, that the Trustee determines is unduly prejudicial to the rights of other Holders of the Debt Securities of any series or would involve the Trustee in personal liability; *provided, however*, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. Prior to taking any action hereunder, the Trustee shall be entitled to security or indemnification reasonably satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

SECTION 6.6 Limitation on Suits. Subject to Section 6.7, a Holder of Debt Securities of any series may not pursue any remedy with respect to this Indenture or the Debt Securities of such series unless:

- (a) the Holder gives to the Trustee written notice stating that an Event of Default with respect to the Debt Securities of such series is continuing;
- (b) the Holders of at least 25% in outstanding principal amount of the Debt Securities of such series make a written request to the Trustee to pursue the remedy;
- (c) such Holder or Holders offer to the Trustee security or indemnity reasonably satisfactory to the Trustee against any loss, liability or expense;
- (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of security or indemnity; and
- (e) the Holders of a majority in principal amount of the Debt Securities of such series do not give the Trustee a direction that is inconsistent with such request during such 60-day period.

A Holder of Debt Securities of any series may not use this Indenture to prejudice the rights of another Holder or to obtain a preference or priority over another Holder, it being understood and intended that no one or more of such Holders will have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb, or prejudice the rights of any other of such Holders (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such Holders).

SECTION 6.7 Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture (including, without limitation, Section 6.6), the right of any Holder to receive payment of principal of or interest on the Debt Securities held by such Holder, on or after the respective due dates expressed in the Debt Securities, or to bring suit for the enforcement of

any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

SECTION 6.8 Collection Suit by Trustee. If an Event of Default specified in Section 6.1(a) or (b) with respect to any series of the Debt Securities occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount then due and owing (together with interest on any unpaid interest to the extent lawful) with respect to that series and the amounts provided for in Section 7.7.

SECTION 6.9 Trustee May File Proofs of Claim. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders allowed in any judicial proceedings relative to the Company, its Subsidiaries or its or their respective creditors or properties, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and its counsel, and any other amounts due the Trustee under this Indenture, including, but not limited to, Section 7.7. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Debt Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 6.10 Priorities. If the Trustee collects any money or property pursuant to this Article VI on behalf of Holders of the Debt Securities of any series, it shall pay out the money or property in the following order:

FIRST: to the Trustee for amounts due under Section 7.7;

SECOND: to Holders for amounts due and unpaid on the Debt Securities of the applicable series for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Debt Securities of the applicable series for principal and interest, respectively; and

THIRD: to the Company.

The Trustee may fix a record date and payment date for any payment to Holders pursuant to this Section 6.10. At least 15 days before such record date, the Company shall mail to each Holder of the Debt Securities of the applicable series and the Trustee a notice that states the record date, the payment date and amount to be paid.

SECTION 6.11 Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an

undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant, in the manner and to the extent provided in the Trust Indenture Act. This Section 6.11 does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.7 or a suit by Holders of more than 10% in outstanding principal amount of the Debt Securities of any series.

ARTICLE VII
Trustee

SECTION 7.1 Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs, provided that if an Event of Default occurs with respect to any series of Debt Securities and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under this Indenture at the request or direction of any of the Holders of Debt Securities of such series unless such Holders have offered to the Trustee indemnity or security reasonably satisfactory to it against any loss, liability or expense (other than as provided in clause (c) below).

(b) With respect to all series of Debt Securities, except for those series with respect to which an Event of Default is continuing,

(i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, in the case of any such certificates or opinions which by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall examine such certificates and opinions to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section 7.1;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Sections 6.2, 6.4 or 6.5.

(d) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company.

(e) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(f) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(g) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section 7.1 and to the provisions of the TIA.

(h) Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from the Company shall be sufficient if evidenced by a Company Order.

(i) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders of any series of Debt Securities unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to it against any loss, liability or expense (including reasonable attorneys' fees and expenses) that might be incurred by it in compliance with such request or direction.

SECTION 7.2 Rights of Trustee. Subject to Section 7.1 and with respect to each series of Debt Securities:

(a) The Trustee may conclusively rely on any document (whether in its original or facsimile form) reasonably believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require the delivery of an Officers' Certificate and/or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on an Officers' Certificate or Opinion of Counsel.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers; *provided, however*, that the Trustee's conduct does not constitute willful misconduct or negligence.

(e) The Trustee may consult with counsel of its selection, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Debt Securities shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make further inquiry or investigation into such facts or matters as it may see fit, personally or by agent or attorney, at the sole cost of the Company and with the Company's cooperation and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(g) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder.

(h) In no event shall the Trustee be responsible or liable for special, indirect, or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(i) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Trust Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Debt Securities of the applicable series and this Indenture.

(j) The Trustee may request that the Company deliver a certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture.

SECTION 7.3 Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Debt Securities and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar, co-registrar or co-paying agent may do the same with like rights. The Trustee must, however, comply with Section 7.10 and Section 7.11.

SECTION 7.4 Trustee's Disclaimer. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Debt Securities, shall not be accountable for the Company's use of the proceeds from the Debt Securities of any series and shall not be responsible for any statement of the Company in this Indenture or in any document

issued in connection with the sale of Debt Securities or in Debt Securities other than the Trustee's certificate of authentication.

SECTION 7.5 Notice of Defaults. If a Default or Event of Default occurs with respect to any series of Debt Securities and is continuing and if a Trust Officer has actual knowledge thereof, the Trustee shall mail to each Holder of the Debt Securities of such series at the address set forth in the Security Register notice of the Default or Event of Default within 90 days after it occurs. Except in the case of a Default or Event of Default in payment of principal or interest on any Debt Security of such series (including payments pursuant to the optional redemption provisions of such Debt Security), the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of Holders of the Debt Securities of such series.

SECTION 7.6 Reports by Trustee to Holders. The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. As promptly as practicable after each May 15 beginning with the May 15 following the date of this Indenture, and in any event prior to July 15 in each year, the Trustee shall mail to each Holder a brief report dated as of such May 15 that complies with TIA Section 313(a) if such report is required by such section.

A copy of each report at the time of its mailing to Holders shall be filed with the SEC and each stock exchange (if any) on which Debt Securities of any series are listed. The Company agrees to promptly notify the Trustee in writing whenever the Debt Securities of any series become listed on any stock exchange and of any delisting thereof.

SECTION 7.7 Compensation and Indemnity. The Company shall pay to the Trustee from time to time such compensation for its acceptance of this Indenture and services rendered by it hereunder as the Company and the Trustee shall from time to time agree in writing. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses, disbursements and advances incurred or made by it, including costs of collection, costs of preparing and reviewing reports, certificates and other documents, costs of preparation and mailing of notices to Holders and reasonable costs of counsel retained by the Trustee in connection with the delivery of an Opinion of Counsel or otherwise, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Trustee's agents, counsel, accountants and experts. The Company shall indemnify the Trustee and its agents appointed hereunder against any and all loss, liability, damages, claims or expense (including reasonable attorneys' fees and expenses) incurred by them without negligence or bad faith on their part in connection with the acceptance or administration of this trust and the performance of their duties hereunder, including the costs and expenses of enforcing this Indenture (including this Section 7.7) and of defending themselves against any claims (whether asserted by any Holder, the Company or otherwise). The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its obligations hereunder. The Company shall defend the claim and the Trustee shall provide reasonable cooperation in the defense. The Trustee may have separate counsel and the Company shall pay the fees and expenses of such counsel, *provided* that the Company shall not be required to pay

such fees and expenses if it assumes the Trustee's defense, and, in the reasonable judgment of counsel to the Trustee, there is no conflict of interest between the Company and the Trustee in connection with such defense. The Company need not reimburse any expense or indemnify against any loss, liability or expense incurred by the Trustee through the Trustee's own willful misconduct, negligence or bad faith.

To secure the Company's payment obligations in this Section 7.7 the Trustee shall have a lien prior to the Debt Securities on all money or property held or collected by the Trustee, other than money or property held in trust to pay principal of and interest on particular Debt Securities. The Trustee's right to receive payment of any amounts due under this Section 7.7 shall not be subordinate to any other liability or Debt of the Company.

The Company's payment obligations pursuant to this Section 7.7 shall survive the discharge of this Indenture. When the Trustee incurs expenses after the occurrence of a Default specified in Section 6.1(e) or (f) with respect to the Company, the expenses are intended to constitute expenses of administration under any Bankruptcy Law.

SECTION 7.8 Replacement of Trustee. The Trustee may resign at any time with respect to the Debt Securities of any series by so notifying the Company. The Holders of a majority in principal amount of the outstanding Debt Securities of any series may remove the Trustee with respect to that series by so notifying the Trustee and may appoint a successor Trustee with respect to that series. The Company shall remove the Trustee if:

- (a) the Trustee fails to comply with Section 7.10;
- (b) the Trustee is adjudged bankrupt or insolvent;
- (c) a receiver or other public officer takes charge of the Trustee or its property; or
- (d) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns or is removed by the Company or by the Holders of a majority in principal amount of the outstanding Debt Securities of any series and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of the Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Company shall promptly appoint a successor Trustee with respect to any applicable series.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.7.

In the case of the appointment hereunder of a successor Trustee with respect to the Debt Securities of one or more (but not all) series, the Company, the predecessor Trustee and each successor Trustee with respect to the Debt Securities of any applicable series shall execute

and deliver an indenture supplemental hereto, which shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the predecessor Trustee with respect to the Debt Securities of any series as to which the predecessor Trustee is not retiring shall continue to be vested in the predecessor Trustee, and shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees as co-Trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of 10% in principal amount of the Debt Securities of any series may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee, in the case of the Holders of a series, a successor Trustee only with respect to that series.

No successor Trustee with respect to any series of Debt Securities shall accept appointment as provided in this Section 7.8 unless at the time of such acceptance such successor Trustee shall with respect to such series be eligible under Section 7.10. If the Trustee fails to comply with Section 7.10, any Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section 7.8, the Company's obligations under Section 7.7 shall continue for the benefit of the retiring Trustee.

SECTION 7.9 Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

In case, at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture, any of the Debt Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee and deliver such Debt Securities so authenticated; and in case at that time any of the Debt Securities shall not have been authenticated, any successor to the Trustee may authenticate such Debt Securities, provided that the right to adopt the certificate of authentication of any predecessor Trustee shall only apply to its successor or successors by merger, consolidation or conversion.

SECTION 7.10 Eligibility; Disqualification. The Trustee shall at all times satisfy the requirements of TIA Section 310(a). The Trustee shall have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition. The Trustee shall comply with TIA Section 310(b); *provided, however*, that there shall be excluded from the operation of TIA Section 310(b)(1) any indenture or indentures under which other securities or certificates of interest or participation in other securities of the Company are outstanding if the requirements for such exclusion set forth in TIA Section 310(b)(1) are met.

SECTION 7.11 Preferential Collection of Claims Against Company. The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated.

ARTICLE VIII
Satisfaction and Discharge of Indenture

SECTION 8.1 Option To Effect Legal Defeasance or Covenant Defeasance. The Company may, at the option of its Board of Directors evidenced by a Board Resolution, at any time, elect to have either Section 8.2 or Section 8.3 be applied to all outstanding Debt Securities of any series, upon compliance with the conditions set forth below in this Article VIII, unless pursuant to Section 2.3, this Article VIII is not applicable with respect to the Debt Securities of such series.

SECTION 8.2 Legal Defeasance and Discharge. Upon the Company's exercise under Section 8.1 of the option applicable to this Section 8.2 with respect to the Debt Securities of any series, the Company shall be deemed to have been discharged from its obligations under this Indenture with respect to all outstanding Debt Securities of such series on the date the conditions set forth below are satisfied (hereinafter, "Legal Defeasance"). For this purpose, such Legal Defeasance means that the Company shall be deemed to have paid and discharged all the obligations relating to the outstanding Debt Securities of such series, and such Debt Securities of such series shall thereafter be deemed to be "outstanding" only for the purposes of Section 8.6 and Section 8.8, and to have satisfied all of its other obligations under such Debt Securities of such series and this Indenture and to have cured all then existing Events of Default with respect to such Debt Securities of such series (and the Trustee, on demand of and at the written direction and expense of the Company shall execute proper instruments acknowledging the same), except for the following which shall survive until otherwise terminated or discharged hereunder: (a) the rights of Holders of outstanding Debt Securities of such series to receive payments in respect of the principal and accrued interest on such Debt Securities of such series when such payments are due or on the Redemption Date solely out of the trust created pursuant to this Indenture; (b) the rights, powers, trusts, duties and immunities of the Trustee, and the Company's obligations in connection therewith; and (c) this Article VIII and the obligations set forth in Section 8.6 hereof.

SECTION 8.3 Covenant Defeasance. Upon the Company's exercise under Section 8.1 of the option applicable to this Section 8.3 with respect to the Debt Securities of any series, the Company shall be released from any obligations under the covenants contained in Section 3.2 and Section 3.3 hereof with respect to the outstanding Debt Securities of such series on and after the date the conditions set forth below are satisfied (hereinafter, "Covenant Defeasance"), and the Debt Securities of such series shall thereafter be deemed not "outstanding" for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder (it being understood that such Debt Securities of such series shall not be deemed outstanding for accounting purposes). For this purpose, such Covenant Defeasance means that, with respect to the outstanding Debt Securities of such series, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other

provision herein or in any other document and such omission to comply shall not constitute a Default or Event of Default with respect to the Debt Securities of such series under Section 6.1(c), nor shall any event referred to in Section 6.1(d) thereafter constitute a Default or Event of Default with respect to the Debt Securities of such series, but, except as specified above, the remainder of this Indenture and such Debt Securities of such series shall be unaffected thereby.

SECTION 8.4 Conditions to Legal or Covenant Defeasance. The following shall be the conditions to the application of either Section 8.2 or Section 8.3 to the outstanding Debt Securities of the applicable series:

(a) in the case of Legal Defeasance of such series, either (i) all Debt Securities of such series theretofore authenticated and delivered under the Indenture must have been delivered to the Trustee for cancellation or (ii) the Company must irrevocably deposit, or cause to be irrevocably deposited, with the Trustee, in trust, for the benefit of the Holders of Debt Securities of such series, cash in U.S. dollars, non-callable U.S. Government Securities or a combination thereof in such amounts (and, in the case of U.S. Government Securities, together with the predetermined and certain income to accrue thereon, without consideration of any reinvestment thereof) as will be sufficient to pay the principal of and accrued interest due on the outstanding Debt Securities of such series on the Stated Maturity date or on the applicable Redemption Date, as the case may be, of such principal of and accrued interest on the outstanding Debt Securities of such series;

(b) in the case of Covenant Defeasance of such series, the Company must irrevocably deposit, or cause to be irrevocably deposited, with the Trustee, in trust, for the benefit of the Holders of Debt Securities of such series, cash in U.S. dollars, non-callable U.S. Government Securities or a combination thereof in such amounts (and, in the case of U.S. Government Securities, together with the predetermined and certain income to accrue thereon, without consideration of any reinvestment thereof) as will be sufficient to pay the principal of and accrued interest due on the outstanding Debt Securities of such series on the Stated Maturity date or on the applicable Redemption Date, as the case may be, of such principal of and accrued interest on the outstanding Debt Securities of such series;

(c) in the case of Legal Defeasance of such series, the Company shall have delivered to the Trustee an Opinion of Counsel reasonably acceptable to the Trustee confirming that, subject to customary assumptions and exclusions, (i) the Company has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (ii) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, subject to customary assumptions and exclusions, the Holders of Debt Securities of such series will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(d) in the case of Covenant Defeasance of such series, the Company shall have delivered to the Trustee an Opinion of Counsel reasonably acceptable to the Trustee confirming that, subject to customary assumptions and exclusions, the Holders of Debt Securities of such series will not recognize income, gain or loss for federal income tax purposes as a result

of such Covenant Defeasance and will be subject to such tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(e) such Covenant Defeasance shall not result in a breach or violation of, or constitute a default under any material agreement or instrument to which the Company is a party or by which the Company is bound;

(f) in the case of Legal Defeasance of such series, 91 days shall have passed during which no Event of Default relating to such series under Section 6.1(e) or Section 6.1(f) has occurred;

(g) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided relating to the defeasance and discharge as contemplated by this Article VIII have been complied with; and

(h) the Company shall have delivered to the Trustee a certificate from a nationally recognized firm of independent accountants expressing their opinion that the payments of principal and accrued interest when due and without reinvestment on the deposited U.S. Government Securities plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay principal and accrued interest when due on all the Debt Securities of such series to maturity.

SECTION 8.5 Satisfaction and Discharge of Indenture. This Indenture will be discharged with respect of the Debt Securities of any series and will cease to be of further effect as to all Debt Securities issued thereunder, when either (a) all Debt Securities of such series theretofore authenticated and delivered (except lost, stolen or destroyed Debt Securities that have been replaced or paid and Debt Securities for whose payment money has theretofore been deposited in trust and thereafter repaid to the Company) have been delivered to the Trustee for cancellation; or (b)(i) all Debt Securities of such series not theretofore delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Company has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust an amount of money in U.S. dollars or U.S. Government Securities or any combination thereof sufficient to pay and discharge the entire indebtedness on the Debt Securities of such series not theretofore delivered to the Trustee for cancellation for principal and accrued and unpaid interest to the date of maturity or redemption; (ii) no Default with respect to the Debt Securities of such series shall have occurred within 91 days of such deposit or shall occur as a result of such deposit and such deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Company is a party or by which it is bound; (iii) the Company has paid or caused to be paid all sums payable by it with respect to the Debt Securities of such series under this Indenture; and (iv) the Company has delivered irrevocable instructions to the Trustee under this Indenture to apply the deposited money toward the payment of the Debt Securities of such series at maturity or the Redemption Date, as the case may be. In addition, with respect to clause (b) of the preceding sentence, the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, stating that all conditions precedent specified herein relating to the satisfaction and discharge of this Indenture have been complied with.

SECTION 8.6 Survival of Certain Obligations. Notwithstanding the satisfaction and discharge of this Indenture with respect to a series of Debt Securities referred to in Section 8.1, Section 8.2, Section 8.3, Section 8.4 or Section 8.5, the respective obligations of the Company and the Trustee under Section 2.2, Section 2.3, Section 2.4, Section 2.5, Section 2.6, Section 2.7, Section 2.8, Section 2.9, Section 2.10, Section 2.11, Section 2.12, Section 3.4, Section 3.5, Section 3.6, Section 3.7, Section 6.7, Section 7.2, Section 7.3, Section 7.7, Section 7.8 and this Article VIII shall survive until the Debt Securities of such series are no longer outstanding and, thereafter, only the Company's obligations in Section 7.7 shall survive such satisfaction and discharge. Nothing contained in this Article VIII shall abrogate any of the obligations or duties of the Trustee under this Indenture.

SECTION 8.7 Acknowledgment of Discharge by Trustee. Subject to Section 8.10, after (a) the conditions of Section 8.4 or Section 8.5 have been satisfied for the applicable series of Debt Securities, (b) the Company has paid or caused to be paid all other sums payable by the Company in connection with such series of Debt Securities and (c) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent referred to in clause (a) above relating to the satisfaction and discharge of this Indenture with respect to the applicable series of Debt Securities have been complied with, the Trustee upon written request by the Company shall acknowledge in writing the discharge of all of the Company's obligations under this Indenture with respect to the applicable series of Debt Securities except for those surviving obligations specified in this Article VIII.

SECTION 8.8 Application of Trust Moneys. All cash in U.S. dollars and U.S. Government Securities deposited with the Trustee pursuant to Section 8.4 or Section 8.5 shall be held in trust and applied by the Trustee, in accordance with the provisions of the Debt Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of Debt Securities of the applicable series, of all sums due and to become due thereon for principal and accrued interest but such money need not be segregated from other funds except to the extent required by law. The Holder of any Debt Security replaced pursuant to Section 2.9 shall not be entitled to any such payment and shall look only to the Company for any payment which such Holder may be entitled to collect. In connection with the satisfaction and discharge of this Indenture or the defeasance of certain obligations under this Indenture, the Company may direct the Trustee in writing to (a) invest any money received by the Trustee in the U.S. Government Securities deposited in trust in additional U.S. Government Securities, and (b) deliver or pay to the Company from time to time upon the request of the Company any money or U.S. Government Securities held by it, that, as evidenced by a certificate from a nationally recognized firm of independent accountants, are in excess of the amount thereof which would then have been required to be deposited for the purpose for which such money or U.S. Government Securities were deposited or received.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Securities deposited pursuant to Section 8.4 or Section 8.5 or the principal or interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of such series of Debt Securities.

SECTION 8.9 Repayment to the Company; Unclaimed Money. The Trustee and any Paying Agent shall promptly pay or return to the Company upon written request any cash or U.S. Government Securities held by them at any time that, in the opinion of a nationally recognized firm of independent public accountants evidenced by a written certification thereof delivered to the Trustee, are not required for the payment of the principal and interest on the Debt Securities of such series for which cash or U.S. Government Securities have been deposited pursuant to Section 8.4 or Section 8.5.

SECTION 8.10 Reinstatement. If the Trustee or Paying Agent is unable to apply any cash or U.S. Government Securities in accordance with Section 8.2, Section 8.3, Section 8.4 or Section 8.5 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the applicable series of Debt Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.2, Section 8.3, Section 8.4 or Section 8.5 until such time as the Trustee or Paying Agent is permitted to apply all such cash or U.S. Government Securities in accordance with Section 8.2, Section 8.3, Section 8.4 or Section 8.5; *provided, however*, that if the Company has made any payment of principal or interest on any Debt Securities of such series because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of the Debt Securities of such series to receive such payment from the money or U.S. Government Securities held by the Trustee or Paying Agent.

ARTICLE IX
Amendments

SECTION 9.1 Without Consent of Holders. The Company and the Trustee may amend this Indenture or the Debt Securities of any series without notice to or consent of any Holder of a Debt Security of such series:

- (a) to cure any ambiguity, omission, defect or inconsistency;
 - (b) to comply with Article IV in respect of the assumption by a successor company of the obligations of the Company under this Indenture;
 - (c) to add guarantees with respect to the Debt Securities of such series;
 - (d) to secure the Debt Securities of such series;
 - (e) to add to the covenants of the Company for the benefit of the Holders of the Debt Securities of such series or to surrender any right or power herein conferred upon the Company;
 - (f) to make any change that does not adversely affect the rights of any Holder of a Debt Security of such series;
 - (g) to comply with any requirement of the SEC in connection with the qualification of this Indenture under the TIA;
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(h) to establish the form or terms of Debt Securities of any series as permitted by Sections 2.2 and 2.3; or

(i) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Debt Securities of one or more series, and as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee.

After an amendment under this Section 9.1 becomes effective, the Company shall mail to Holders of the Debt Securities of such series a notice briefly describing such amendment. The failure to give such notice to all Holders of the Debt Securities of such series at the address set forth in the Security Register, or any defect therein, shall not impair or affect the validity of an amendment under this Section 9.1.

SECTION 9.2 With Consent of Holders. The Company and the Trustee may amend this Indenture or the Debt Securities of any series without notice to any Holder of a Debt Security of such series but with the written consent of the Holders of at least a majority in principal amount of the Debt Securities of all series then outstanding affected by such amendment (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Debt Securities of such series) voting as a single class, by Act of such Holders delivered to the Company and the Trustee. However, without the consent of each Holder of a Debt Security of such series affected, an amendment may not:

(a) reduce the amount of Debt Securities of such series whose Holders must consent to an amendment;

(b) reduce the stated rate of or extend the stated time for payment of interest on any Debt Security of such series;

(c) reduce the principal of or extend the Stated Maturity of any Debt Security of such series;

(d) reduce the premium payable upon the redemption of any Debt Security of such series or change the time at which any Debt Security of such series may or shall be redeemed as described above under Article V or any similar provision, whether through an amendment to or waiver of Article V, a definition or otherwise;

(e) make any Debt Security of such series payable in money other than that stated in the Debt Security of such series;

(f) impair the right of any Holder of a Debt Security of such series to receive payment of principal of and interest on such Holder's Debt Securities of such series on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Debt Securities of such series; or

(g) make any change to the amendment provisions that require consent of the Holders of Debt Securities of such series or the waiver provisions in Section 6.4 that require consent of the Holders of Debt Securities of such series.

It shall not be necessary for the consent of the Holders of such series under this Section 9.2 to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

After an amendment under this Section 9.2 becomes effective, the Company shall mail to Holders of Debt Securities of such series a notice briefly describing such amendment. The failure to give such notice to all Holders of Debt Securities of such series, or any defect therein, shall not impair or affect the validity of an amendment under this Section 9.2.

SECTION 9.3 Compliance with Trust Indenture Act. Every amendment to this Indenture or the Debt Securities of any series shall comply with the TIA as then in effect.

SECTION 9.4 Notation on or Exchange of Debt Securities. If an amendment changes the terms of a Debt Security of any series, the Trustee may require the Holder of such Debt Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Debt Security regarding the changed terms and return it to the Holder of such Debt Security. Alternatively, if the Company or the Trustee so determines, the Company in exchange for such Debt Security shall execute and, upon Company Order, the Trustee shall authenticate a new Debt Security of such series that reflects the changed terms. Failure to make the appropriate notation or to issue a new Debt Security of such series shall not affect the validity of such amendment.

SECTION 9.5 Trustee To Sign Amendments. The Trustee shall sign any amendment authorized pursuant to this Article IX if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Trustee. The Trustee may, but is not obligated to, sign any amendment authorized pursuant to this Article IX if the amendment adversely affects the rights, duties, liabilities or immunities of the Trustee. In signing such amendment the Trustee shall receive indemnity reasonably satisfactory to it and receive, and (subject to Section 7.1 and Section 7.2) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Indenture and that such amendment is the legal, valid and binding obligation of the Company, enforceable against it in accordance with its terms, subject to customary exceptions, and complies with the provisions hereof (including Section 9.3).

ARTICLE X Miscellaneous

SECTION 10.1 Trust Indenture Act Controls. If any provision of this Indenture limits, qualifies or conflicts with another provision which is required to be included in this Indenture by the TIA, the provision required by the TIA shall control.

SECTION 10.2 Notices. Any notice or communication shall be in writing and delivered in person or mailed by first-class mail addressed as follows:

if to the Company:
The Black & Decker Corporation
701 East Joppa Road
Towson, Maryland 21286

Attention: Treasurer

with copies to:

The Black & Decker Corporation
701 East Joppa Road
Towson, Maryland 21286
Attention: General Counsel

Miles & Stockbridge, P.C.
10 Light Street
Baltimore, Maryland 21202
Attention: Christopher R. Johnson

if to the Trustee:

The Bank of New York
101 Barclay Street, 8W
New York, New York 10286
Attention: Corporate Trust Administration

with a copy to:

Emmet, Marvin & Martin, LLP
120 Broadway
New York, New York 10271
Attention: Elizabeth M. Clark

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a registered Holder shall be mailed by first-class mail to the Holders at the Holder's address as it appears on the Security Register and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 10.3 Communication by Holders with other Holders. Holders may communicate pursuant to TIA Section 312(b) with other Holders with respect to their rights under this Indenture or the applicable series of Debt Securities. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA Section 312(c).

SECTION 10.4 Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Company to the Trustee to take or refrain from taking any action under this Indenture, the Company shall furnish to the Trustee:

(a) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(b) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 10.5 Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture shall include:

- (a) a statement that the individual making such certificate or opinion has read such covenant or condition;
- (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- (c) a statement that, in the opinion of such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (d) a statement as to whether or not, in the opinion of such individual, such covenant or condition has been complied with.

In giving such Opinion of Counsel, counsel may rely as to factual matters on an Officers' Certificate or on certificates of public officials.

SECTION 10.6 When Debt Securities Disregarded. In determining whether the Holders of the required principal amount of Debt Securities of any series have concurred in any direction, waiver or consent, Debt Securities of such series owned by the Company or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Debt Securities of such series that a Trust Officer of the Trustee actually knows are so owned shall be so disregarded. Also, subject to the foregoing, only Debt Securities outstanding at the time shall be considered in any such determination.

SECTION 10.7 Rules by Trustee, Paying Agent and Registrar. The Trustee may make reasonable rules for action by, or a meeting of, Holders. The Registrar and the Paying Agent may make reasonable rules for their functions.

SECTION 10.8 Legal Holidays. A "Legal Holiday" is a Saturday, a Sunday or other day on which commercial banking institutions are authorized or required to be closed in New York City. If a payment date is a Legal Holiday, payment shall be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If a regular record date is a Legal Holiday, the record date shall not be affected.

SECTION 10.9 **GOVERNING LAW; WAIVER OF JURY TRIAL. THIS INDENTURE AND THE DEBT SECURITIES SHALL BE GOVERNED BY, AND**

CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. EACH OF THE COMPANY AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE NOTES OR THE TRANSACTION CONTEMPLATED HEREBY.

SECTION 10.10 No Recourse Against Others. An incorporator, director, officer, employee, Affiliate or stockholder of the Company, solely by reason of this status, shall not have any liability for any obligations of the Company under the Debt Securities or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Debt Security, each Holder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Debt Securities.

SECTION 10.11 Successors. All agreements of the Company in this Indenture and the Debt Securities shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

SECTION 10.12 Multiple Originals. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

SECTION 10.13 Variable Provisions. The Company initially appoints the Trustee as Paying Agent and Registrar and custodian with respect to any Global Securities.

SECTION 10.14 Table of Contents; Headings. The table of contents, cross-reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.

SECTION 10.15 Force Majeure. In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts that are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

SECTION 10.16 Severability. A determination that any provision of this Indenture is unenforceable or invalid shall not affect the enforceability or validity of any other provision hereof.

IN WITNESS WHEREOF, the parties have caused this Indenture to be duly executed as of the date first written above.

THE BLACK & DECKER CORPORATION

By: /s/ Charles E. Fenton
Name: Charles E. Fenton
Title: Senior Vice President and General Counsel

THE BANK OF NEW YORK, as Trustee

By: /s/ Alexander Pabon
Name: Alexander Pabon
Title: Assistant Vice President

THE BLACK & DECKER CORPORATION

AND

**THE BANK OF NEW YORK,
AS TRUSTEE**

5.750% Senior Notes Due 2016

FIRST SUPPLEMENTAL INDENTURE

Dated as of November 16, 2006

TABLE OF CONTENTS

	<u>Page</u>	
ARTICLE I. DEFINITIONS; INCORPORATION BY REFERENCE		
SECTION 1.1	DEFINITIONS	1
SECTION 1.2	INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT	2
SECTION 1.3	RULES OF CONSTRUCTION	2
ARTICLE II. THE NOTES		
SECTION 2.1	DESIGNATION	2
SECTION 2.2	PRINCIPAL AMOUNT; SERIES TREATMENT	2
SECTION 2.3	PAYMENT OF PRINCIPAL AND INTEREST	3
SECTION 2.4	FORM	3
SECTION 2.5	TRANSFER RESTRICTIONS	4
SECTION 2.6	SINKING FUND	5
ARTICLE III. OPTIONAL REDEMPTION OF THE NOTES; CHANGE OF CONTROL REPURCHASE EVENT		
ARTICLE IV. EXECUTION OF THE NOTES		
ARTICLE V. MISCELLANEOUS		
SECTION 5.1	RATIFICATION	5
SECTION 5.2	TRUSTEE	5
SECTION 5.3	GOVERNING LAW	5
SECTION 5.4	TABLE OF CONTENTS; HEADINGS	5
SECTION 5.5	MULTIPLE ORIGINALS	6
SECTION 5.6	SEVERABILITY	6
SECTION 5.7	EFFECTIVE DATE	6

Exhibit A – Form of Note

FIRST SUPPLEMENTAL INDENTURE, dated as of November 16, 2006 (this "Supplemental Indenture"), between THE BLACK & DECKER CORPORATION, a Maryland corporation (the "Company"), and THE BANK OF NEW YORK, a New York banking corporation, as Trustee.

RECITALS

- A. The Company and the Trustee have executed an indenture, dated as of November 16, 2006 (the "Indenture"), to provide for, among other things, the issuance from time to time of the Company's Debt Securities in one or more series as might be authorized under the Indenture.
- B. The Indenture provides that the Company and the Trustee may enter into an indenture supplemental thereto to establish the form and terms of any series of Debt Securities as provided by Sections 2.1 and 2.3 of the Indenture.
- C. The Company has duly authorized and desires to enter into this Supplemental Indenture to provide for the establishment of Debt Securities to be known as the 5.750% Senior Notes due 2016 (the "Notes"), the form, substance, terms, provisions and conditions of which shall be set forth in the Indenture and this Supplemental Indenture.
- D. The Company has requested that the Trustee execute and deliver this Supplemental Indenture and satisfy all requirements necessary to make (i) this Supplemental Indenture a valid instrument in accordance with its terms and (ii) the Debt Securities provided for hereby, when executed and delivered by the Company and authenticated by the Trustee, the valid obligations of the Company.

NOW THEREFORE, each party agrees as follows for the benefit of the other parties and for the equal and ratable benefit of the Holders of the Notes:

ARTICLE I

Definitions; Incorporation by Reference

SECTION 1.1 Definitions.

"DTC" means The Depository Trust Company, its nominees and their respective successors and assigns, or such other depository institution hereinafter appointed by the Company.

"Global Notes" shall have the meaning set forth in Section 2.4(b).

"Indenture" shall have the meaning set forth in the first recital.

"Initial Notes" shall have the meaning set forth in Section 2.2(a).

“Notes” shall have the meaning set forth in the third recital.

“Supplemental Indenture” shall have the meaning set forth in the introductory paragraph.

SECTION 1.2 Incorporation by Reference of Trust Indenture Act. This Supplemental Indenture is subject to the mandatory provisions of the TIA, which are incorporated by reference in and made a part of this Supplemental Indenture. All TIA terms used in this Supplemental Indenture that are defined by the TIA, defined in the TIA by reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

SECTION 1.3 Rules of Construction.

- (a) Unless otherwise indicated, capitalized terms that are not defined herein shall have the meanings given to them in the Indenture.
- (b) Unless the context otherwise requires:
 - (i) a term has the meaning assigned to it;
 - (ii) an accounting term not otherwise defined has the meaning assigned to it in accordance with U.S. GAAP;
 - (iii) “or” is not exclusive;
 - (iv) “including” means including without limitation;
 - (v) words in the singular include the plural and words in the plural include the singular;
 - (vi) the principal amount of any noninterest bearing or other discount security at any date shall be the principal amount thereof that would be shown on a balance sheet of the issuer dated such date prepared in accordance with U.S. GAAP; and
 - (vii) unless otherwise indicated, all references to Articles or Sections refer to Articles or Sections of this Supplemental Indenture.

ARTICLE II
The Notes

SECTION 2.1 Designation. The Company hereby establishes a series of Debt Securities designated the “5.750% Senior Notes due 2016” for issuance under the Indenture.

SECTION 2.2 Principal Amount; Series Treatment.

(a) The Notes shall initially be limited to an aggregate principal amount of \$300,000,000 (the “Initial Notes”). The Company may, from time to time without the consent of

the Holders of the outstanding Notes, issue additional Notes, so that such additional Notes and the outstanding Notes shall be consolidated together and form a single series of Debt Securities under the Indenture, as supplemented by this Supplemental Indenture. For all purposes of the Indenture and this Supplemental Indenture, all Notes, whether Initial Notes or additional Notes, shall constitute one series of Debt Securities and shall vote together as one series of Debt Securities.

(b) Any additional Notes issued under Section 2.2(a) shall have the same terms in all respects as the corresponding series of Notes, except that interest will accrue on the additional Notes from the most recent date to which interest has been paid on the Notes of such series (other than the additional Notes) or if no interest has been paid on the outstanding Notes of such series from the first date that the outstanding Notes were originally issued under the Indenture, as supplemented by this Supplemental Indenture.

(c) The Notes shall be issued only in fully registered form, without coupons, and only in minimum denominations of \$1,000 and integral multiples thereof.

SECTION 2.3 Payment of Principal and Interest. The principal amount of each Note shall be due and payable on November 15, 2016.

The Notes will bear interest at the rate of 5.750% per annum from November 16, 2006 until the principal thereof becomes due and payable or to the date of redemption (if any) of the Notes, such interest to be payable semi-annually in arrears on May 15 and November 15 of each year, to the Holders of record of the Notes as of the close of business on the May 1 and November 1 preceding such interest payment dates, commencing, in the case of the Initial Notes or any additional Notes issued prior to such date, on May 15, 2007.

Any payment of principal or interest required to be made on a day that is not a Business Day need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on such day and no interest shall accrue as a result of such delayed payment.

SECTION 2.4 Form.

(a) The Notes shall contain the terms set forth in, and shall be substantially in the form of, Exhibit A. The terms and provisions contained in the form of Notes set forth in Exhibit A shall constitute, and are hereby expressly made, a part of the Indenture, as supplemented by this Supplemental Indenture.

The Notes shall have such appropriate insertions, omissions, substitutions and other variations as are required or permitted by the Indenture, as supplemented by this Supplemental Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements imprinted or otherwise reproduced thereon, not inconsistent with the provisions of the Indenture, as supplemented by this Supplemental Indenture, as may be required to comply with any law, or with any rules of any securities exchange, all as may, consistently herewith, be determined by the Officers executing the Notes as evidenced by their execution of the Notes.

(b) The Company initially appoints DTC to act as Depository with respect to the Notes issued in the form of Global Securities.

So long as the Notes are eligible for book-entry settlement with DTC, or unless otherwise required by law, or otherwise contemplated herein, all of the Notes shall be represented by one or more Notes in global form registered in the name of DTC or its nominee.

The Notes shall be issued initially in the form of one or more permanent Global Securities in registered form, substantially in the form set forth in Exhibit A (the “Global Notes”), registered in the name of Cede & Co., the nominee of DTC, upon Company Order, deposited with the Trustee, as custodian for DTC or its nominee, duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the Global Notes may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for DTC or its nominee, in accordance with the instructions given by the Holder thereof, as hereinafter provided.

The transfer and exchange of beneficial interests in any such Global Notes shall be effected through DTC in accordance with this Supplemental Indenture, the Indenture and DTC’s applicable procedures. Except as provided in the Indenture, beneficial owners of a Global Note shall not be entitled to have certificates registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form and will not be considered Holders of such Global Note.

Any Global Note shall represent such of the outstanding Notes as shall be specified therein and shall provide that it shall represent the aggregate amount of outstanding Notes from time to time endorsed thereon and that the aggregate amount of outstanding Notes represented thereby may from time to time be increased or reduced to reflect redemptions, transfers or exchanges permitted hereby. Any endorsement of a Global Note to reflect the amount of any increase or decrease in the amount of outstanding Notes represented thereby shall be made by the Trustee in such manner and upon written instructions given by the Holder of such Notes in accordance with the Indenture and this Supplemental Indenture. Payment of principal of and interest and premium, if any, on any Global Note shall be made to the Holder of such Note.

SECTION 2.5 Transfer Restrictions. The following provisions shall apply only to the Global Notes:

(a) Each Global Note authenticated under this Supplemental Indenture shall be registered in the name of DTC or its nominee and delivered to DTC or its nominee or to the Trustee if the Trustee is acting as custodian for DTC or its nominee with respect to such Global Note, and each such Global Note shall constitute a single Note for all purposes of the Indenture and this Supplemental Indenture.

(b) Notwithstanding any other provision in this Supplemental Indenture, no Global Note may be exchanged in whole or in part for Notes registered, and no transfer of a Global Note in whole or in part may be registered, in the name of any Person other than DTC or its nominee except as provided in Section 2.4 of the Indenture. Any Note issued in exchange for a Global Note or any portion thereof shall be a Global Note; provided that any such Note so issued

that is registered in the name of a Person other than DTC or its nominee shall not be a Global Note.

(c) Notes issued in exchange for a Global Note or any portion thereof pursuant to clause (b) above shall be issued pursuant to Section 2.4 of the Indenture.

(d) At such time as all interests in a Global Note have been redeemed, repurchased, converted, canceled or exchanged for Notes in definitive form, such Global Note shall, upon receipt thereof, be canceled by the Trustee in accordance with standing procedures and instructions existing between DTC and the Trustee. At any time prior to such cancellation, if any interest in a Global Note is redeemed, repurchased, converted, canceled or exchanged for Notes in definitive form, the principal amount of such Global Note shall, in accordance with the standing procedures and instructions existing between DTC and the Trustee, be appropriately reduced, and an endorsement shall be made on such Global Note, by the Trustee, at the direction of the Trustee, to reflect such reduction.

SECTION 2.6 Sinking Fund. The Notes shall not be subject to a sinking fund.

ARTICLE III

Optional Redemption of the Notes; Change of Control Repurchase Event

The Notes may be redeemed at the option of the Company on the terms and conditions set forth in the form of Note set forth in Exhibit A. In the event of a Change of Control Repurchase Event (as defined in Exhibit A) the Company will offer to repurchase the Notes on the terms and conditions set forth in the form of Note set forth in Exhibit A.

ARTICLE IV

Execution of the Notes

The Notes, the Company Order and any Officers' Certificates to be delivered under the Indenture in connection with the authentication and delivery of the Notes shall be executed and delivered as set forth in the Indenture.

ARTICLE V

Miscellaneous

SECTION 5.1 Ratification. The Indenture, as supplemented by this Supplemental Indenture, is in all respects ratified and confirmed, and this Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided.

SECTION 5.2 Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Company.

SECTION 5.3 Governing Law. **THIS SUPPLEMENTAL INDENTURE AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

SECTION 5.4 Table of Contents; Headings. The table of contents and headings of the Articles and Sections of this Supplemental Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.

SECTION 5.5 Multiple Originals. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Supplemental Indenture.

SECTION 5.6 Severability. A determination that any provision of this Supplemental Indenture is unenforceable or invalid shall not affect the enforceability or validity of any other provision hereof.

SECTION 5.7 Effective Date. This Supplemental Indenture shall be effective pursuant to Section 9.1 of the Indenture immediately upon execution by the Company and delivery to and execution by the Trustee of this Supplemental Indenture.

[signatures appear on the following page]

IN WITNESS WHEREOF, the parties have caused this Supplemental Indenture to be duly executed as of the date first written above.

THE BLACK & DECKER CORPORATION

By: /s/ Charles E. Fenton
Name: Charles E. Fenton
Title: Senior Vice President and General Counsel

THE BANK OF NEW YORK, as Trustee

By: /s/ Alexander Pabon
Name: Alexander Pabon
Title: Assistant Vice President

[FORM OF FACE OF NOTE]

[Global Notes shall bear the following legend]

[THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF THE DEPOSITORY TRUST COMPANY (“DTC”), AS DEPOSITARY, OR A NOMINEE OF DTC. TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR’S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.]

Unless this certificate is presented by an authorized representative of DTC, to the Company or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co., or such other name as requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is required by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.]

No. ____

Principal Amount \$300,000,000,
as revised by the Schedule of
Increases and Decreases in
Global Security attached hereto

CUSIP NO. _____
ISIN: _____

5.750% Senior Notes Due 2016

The Black & Decker Corporation, a Maryland corporation, promises to pay to Cede & Co., or registered assigns, the principal sum of \$300,000,000 Dollars, as revised by the Schedule of Increases and Decreases in Global Security attached hereto, on November 15, 2016.

Interest Payment Dates: May 15 and November 15
Record Dates: May 1 and November 1

Additional provisions of this Note are set forth on the other side of this Note.

THE BLACK & DECKER CORPORATION

By: _____
Name:
Title:

TRUSTEE'S CERTIFICATE OF
AUTHENTICATION

The Bank of New York, as Trustee,
certifies that this is one of the Debt
Securities referred to in the Indenture.

By: _____
Authorized Signatory
Date:

[FORM OF REVERSE SIDE OF NOTE]

5.750% Senior Notes Due 2016

This Note is one of a duly authorized issue of Debt Securities of The Black & Decker Corporation, a Maryland corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), of the series hereinafter specified, all issued or to be issued pursuant to an indenture, dated as of November 16, 2006, as amended and supplemented by the First Supplemental Indenture, dated as of November 16, 2006 (together referred to herein as the "Indenture"), between the Company and The Bank of New York, a New York banking corporation, as trustee (the "Trustee," which term includes any successor Trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the Holders of the Debt Securities. To the extent terms of the Indenture and this Note are inconsistent, the terms of the Indenture shall govern. This Note is one of a series of Debt Securities of the Company designated as the 5.750% Senior Notes due 2016 (the "Notes"), initially limited in aggregate principal amount of \$300,000,000, subject to the issuance of additional Notes as provided in the Indenture. Terms used but not defined herein shall have the respective meanings set forth in the Indenture.

1. Interest. The Company promises to pay interest on the principal amount of this Debt Security at the rate per annum shown above.

The Company will pay interest semiannually on May 15 and November 15 of each year commencing May 15, 2007. Interest on the Notes will accrue from the most recent date to which interest has been paid on the Notes or, if no interest has been paid, from November 16, 2006. The Company shall pay interest on overdue principal or premium, if any (plus interest on such interest to the extent lawful), at the rate borne by the Notes to the extent lawful. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

2. Method of Payment. By at least 10:00 a.m. (New York City time) on the date on which any principal of or interest on any Note is due and payable, the Company shall deposit with the Trustee or the Paying Agent money sufficient to pay such principal, premium, if any, and/or interest when due. The Company will pay interest (except Defaulted Interest) to the Persons who are registered Holders of Notes at the close of business on May 1 or November 1 next preceding the interest payment date even if Notes are cancelled, repurchased or redeemed after the record date and on or before the interest payment date. Holders must surrender Notes to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. Except as described in the succeeding two sentences, the principal of, premium, if any, and interest on the Notes shall be payable at the office or agency of the Company maintained for such purpose pursuant to Section 3.4 of the Indenture; *provided, however*, that, at the option of the Company, each installment of interest may be paid by check mailed to addresses of the Persons entitled thereto as such addresses shall appear on the Security Register. Payments in respect of Notes represented by a Global Note (including principal, premium, if any, and interest) will be made by wire transfer of immediately available funds to the accounts

specified by the Depository. Payments in respect of Notes represented by definitive Notes (including principal, premium, if any, and interest) held by a Holder of at least \$1,000,000 aggregate principal amount of Notes represented by definitive Notes will be made by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such Holder elects payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 15 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion).

Any payment of principal or interest required to be made on a day that is not a Business Day need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on such day and no interest shall accrue as a result of such delayed payment. As used in this Note, the term "Business Day" means a day other than a Saturday, Sunday or other day on which commercial banking institutions are authorized or required by law to close in the City of New York.

3. Paying Agent and Registrar. Initially, the Trustee will act as Trustee, Paying Agent and Registrar. The Company may appoint and change any Paying Agent, Registrar or co-registrar without notice to any Holder. The Company or any of its Subsidiaries may act as Paying Agent, Registrar or co-registrar.

4. Indenture. The Company issued the Notes under the Indenture. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbb) as in effect on the date of the Indenture (the "Act"). Capitalized terms used herein and not defined herein have the meanings ascribed thereto in the Indenture. The Notes are subject to all such terms, and Holders are referred to the Indenture and the Act for a statement of those terms. In the event of any inconsistency between the terms of this Note and the terms of the Indenture, the terms of the Indenture shall control.

The Notes are general unsecured and unsubordinated obligations of the Company initially limited to \$300,000,000 aggregate principal amount of Notes and will rank equally with all of the Company's existing and future unsecured and unsubordinated indebtedness. The Company may at any time issue additional Notes under the Indenture in unlimited amounts having the same terms as and treated as a single class with the Notes for all purposes under the Indenture and will vote together as one class with respect to the Notes. This Note is one of the Debt Securities referred to in the Indenture. The Indenture imposes certain limitations on, among other things the incurrence of certain liens and sale-leaseback transactions by the Company or its Subsidiaries and consolidations, mergers and sales of assets of the Company.

5. Redemption: Change of Control Repurchase Event. The Notes will be redeemable, in whole or in part, at any time, at the option of the Company, upon not less than 30 and not more than 60 days prior notice mailed by first-class mail to each Holder of Notes to be so redeemed at such Holder's registered address, at a redemption price equal to the greater of

- o 100% of the principal amount of the Notes to be redeemed; or

o the sum of the present values of the remaining scheduled payments of principal of and interest on the Notes to be redeemed, exclusive of interest accrued to the redemption date, discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate (as defined below), plus 20 basis points, as calculated by an Independent Investment Banker;

plus, in either case, accrued and unpaid interest on the principal amount of the Notes to be redeemed to the redemption date.

For purposes of determining the optional redemption price, the following definitions are applicable:

"Adjusted Treasury Rate" means, with respect to any redemption date for the Notes,

o the yield, under the heading that represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the applicable maturity date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month); or

o if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

The Adjusted Treasury Rate shall be calculated on the third business day preceding the redemption date.

"Comparable Treasury Issue" means the U.S. Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

"Comparable Treasury Price" means, with respect to any redemption date applicable to the Notes (1) the average of four Reference Treasury Dealer Quotations obtained by the Trustee for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations; or (2) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations obtained by the Trustee.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Company; provided that the Trustee will not be liable for any errors and omissions of the Independent Investment Banker.

“Reference Treasury Dealer” means (1) Banc of America Securities LLC, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. (or their respective successors); provided, however, that if any of the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a “Primary Treasury Dealer”), the Company shall substitute therefor another Primary Treasury Dealer; and (2) one other Primary Treasury Dealer appointed by the Trustee after consultation with the Company; provided that the Trustee will not be liable for any errors and omissions of such Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue for the Notes, expressed in each case as a percentage of its principal amount, quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

In the case of any partial redemption, selection of the Notes for redemption will be made by the Trustee at least 30 and not more than 60 days prior to the redemption date and by such method as the Trustee shall deem to be fair and appropriate (and in such manner as complies with applicable legal requirements) provided that (i) the Notes and portions thereof that the Trustee selects shall be in amounts of \$1,000 or an integral multiple of \$1,000 and (ii) no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than \$1,000. Notice of such redemption will be given within this period of time in accordance with the Indenture. If any Note is to be redeemed in part only, the notice of redemption relating to such Note shall state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued in the name of the Holder thereof upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on the Notes or portions thereof called for redemption as long as the Company has deposited with the Trustee or with a Paying Agent (or, if applicable, segregated and held in trust) money sufficient to pay the redemption price of, and accrued interest on, all the Notes that are to be redeemed on such date.

If a Change of Control Repurchase Event (defined below) occurs, unless the Company has previously exercised its right to redeem the notes as described above, the Company will make an offer to each Holder of Notes to repurchase all or any part (in integral multiples of \$1,000) of that Holder’s Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to the date of purchase. Within 30 days following any Change of Control Repurchase Event or, at the Company’s option, prior to any Change of Control (defined below), but after the public announcement of the Change of Control, the Company will mail a notice to each Holder, with a copy to the Trustee, describing the transaction or transactions that constitute or may constitute the Change of Control Repurchase Event and offering to repurchase Notes on the payment date specified in the notice, which date will be no earlier than 30 days and no later

than 60 days from the date such notice is mailed. The notice shall, if mailed prior to the date of consummation of the Change of Control, state that the offer to purchase is conditioned on the Change of Control Repurchase Event occurring on or prior to the payment date specified in the notice. The Company will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and any other securities laws and regulations under the Exchange Act to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Repurchase Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Repurchase Event provisions herein, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control Repurchase Event provisions herein by virtue of such conflict.

On the Change of Control Repurchase Event payment date, the Company will, to the extent lawful:

- o accept for payment all Notes or portions of Notes properly tendered pursuant to the Company's offer;
 - o deposit with the Paying Agent an amount equal to the aggregate purchase price in respect of all Notes or portions of Notes properly tendered;
- and
- o deliver or cause to be delivered to the Trustee the Notes properly accepted, together with an Officers' Certificate stating the aggregate principal amount of Notes being purchased by the Company.

The Paying Agent will promptly mail to each Holder of Notes properly tendered the purchase price for the Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each Holder a new Note equal in principal amount to any unpurchased portion of any Notes surrendered; *provided* that each new Note will be in a principal amount of \$1,000 or an integral multiple thereof.

The Company will not be required to make an offer to repurchase the Notes upon a Change of Control Repurchase Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by the Company and such third party purchases all Notes properly tendered and not withdrawn under its offer.

For purposes of the Notes:

"Below Investment Grade Rating Event" means the Notes are rated below Investment Grade (defined below) by both rating agencies on any date from the date of the public notice of an arrangement that could result in a Change of Control until the end of the 60-day period following public notice of the occurrence of a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by either of the rating agencies); *provided* that a Below Investment Grade Rating Event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control (and thus shall not be deemed a Below Investment Grade Rating Event for purposes of the definition of Change of Control

Repurchase Event) if the rating agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the Trustee in writing at the Company's request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Below Investment Grade Rating Event).

"Change of Control" means the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as that term is used in Section 13(d)(3) of the Exchange Act) becomes the beneficial owner, directly or indirectly, of more than 50% of the Company's Voting Stock (defined below), measured by voting power rather than number of shares. Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control if (1) the Company becomes a wholly owned subsidiary of a holding company and (2) the holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Company's Voting Stock immediately prior to that transaction.

"Change of Control Repurchase Event" means the occurrence of both a Change of Control and a Below Investment Grade Rating Event.

"Investment Grade" means a rating of Baa3 or better by Moody's (or its equivalent under any successor rating categories of Moody's); a rating of BBB- or better by S&P (or its equivalent under any successor rating categories of S&P); and the equivalent Investment Grade credit rating from any additional Rating Agency (defined below) or Rating Agencies selected by the Company.

"Moody's" means Moody's Investors Service Inc.

"Rating Agency" means (1) each of Moody's and S&P; and (2) if either of Moody's or S&P ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside of the Company's control, a "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act, selected by the Company (as certified by a resolution of the Company's board of directors) as a replacement agency for Moody's or S&P, or both, as the case may be.

"S&P" means Standard & Poor's Ratings Services, a division of McGraw-Hill, Inc.

"Voting Stock" of any specified "person" (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date means the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

6. Denominations; Transfer; Exchange. The Notes are in registered form without coupons in denominations of principal amount of \$1,000 and whole multiples of \$1,000. A Holder may transfer or exchange Notes in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need

not (A) issue, register the transfer of or exchange any Note during a period beginning at the opening of 15 days before the day of any selection of Notes for redemption and ending at the close of business on the day of selection, (B) register the transfer of or to exchange any Note so selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part, or (C) register the transfer of or to exchange a Note between a record date and the next succeeding interest payment date.

7. Persons Deemed Owners. The registered Holder of this Note will be treated as the owner of it for all purposes.

8. Unclaimed Money. If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Company at its written request unless an abandoned property law designates another Person. After any such payment, Holders entitled to the money must look only to the Company and not to the Trustee or Paying Agent for payment.

9. Defeasance. Subject to certain conditions set forth in the Indenture, the Company at any time may terminate some or all of its obligations under the Notes and the Indenture if the Company deposits with the Trustee money or U.S. Government Securities for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be.

10. Amendment, Waiver. Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Notes may be amended with the written consent of the Holders of at least a majority in principal amount of the then outstanding Notes and (ii) any default (other than with respect to nonpayment or in respect of a provision that cannot be amended without the written consent of each Holder affected thereby) or noncompliance with any provision may be waived with the written consent of the Holders of a majority in principal amount of the then outstanding Notes. Subject to certain exceptions set forth in the Indenture, without the consent of any Holder, the Company and the Trustee may amend the Indenture or the Notes to cure any ambiguity, omission, defect or inconsistency, or to comply with Article IV of the Indenture, or to add guarantees with respect to the Notes, or to secure the Notes, or to add additional covenants of the Company, or surrender rights and powers conferred on the Company, or to comply with any request of the SEC in connection with qualifying the Indenture under the Act, or to make any change that does not adversely affect the rights of any Holder, or to establish the form or terms of the Notes as permitted under the Indenture, or to evidence and provide for the acceptance of appointment under the Indenture by a successor Trustee with respect to the Notes and as shall be necessary to provide for or facilitate the administration of the trusts under the Indenture by more than one Trustee.

11. Defaults and Remedies. Under the Indenture, Events of Default include (i) default in any payment of interest or additional interest on any Note when due, and continuing for 30 days; (ii) default in the payment of principal or premium, if any, on any Note when due at its Stated Maturity, upon optional redemption, upon declaration or otherwise; (iii) default by the Company in the performance of or breaches by the Company of any covenant or agreement in the Indenture or under the Notes, other than those referred to in (i) or (ii), where such default continues for 60 days after written notice to the Company by the Trustee or to the Company and

the Trustee by the Holders of at least 25% in principal amount of the outstanding Notes; (iv) (a) failure by the Company or any of its Subsidiaries to pay, in accordance with its terms and when payable, any of the principal, premium, if any, interest or additional amounts, if any, on any Debt (including the Notes, but other than the Notes, if any, with respect to which the failure to pay principal, premium, if any, interest or additional interest is also an Event of Default under clauses (i), (ii) or both) having, in the aggregate, a then outstanding principal amount in excess of \$50,000,000, at the later of final maturity or the expiration of any applicable grace period or (b) acceleration of the maturity of Debt in an aggregate principal amount in excess of \$50,000,000, if that acceleration results from a default under the instrument giving rise to or securing such Debt; or (v) certain events of bankruptcy, insolvency or reorganization of the Company.

If an Event of Default described in clauses (i), (ii), (iii) and (iv) occurs and is continuing, the Trustee by notice to the Company, or the Holders of at least 25% in outstanding principal amount of the Notes by notice to the Company and the Trustee, may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest, if any, on all the Notes to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest shall be immediately due and payable. If an Event of Default described in clause (v) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders.

Holders may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Notes unless it receives reasonable indemnity or security satisfactory to it. Subject to certain limitations, Holders of a majority in principal amount of the Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing Default or Event of Default (except a Default or Event of Default in payment of principal of, premium, if any, or interest on any Note) if it determines in good faith that withholding notice is in the interests of Holders.

12. Trustee Dealings with the Company. Subject to certain limitations set forth in the Indenture, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

13. No Recourse Against Others. An incorporator, director, officer, employee, Affiliate or stockholder, of the Company, solely by reason of this status, shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Holder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

14. Authentication. This Note shall not be valid until an authorized signatory of the Trustee (or an authenticating agent acting on its behalf) manually signs the certificate of authentication on the other side of this Note.

15. Abbreviations. Customary abbreviations may be used in the name of a Holder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entirety), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian) and U/G/M/A (=Uniform Gift to Minors Act).

16. CUSIP Numbers. Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures the Company has caused CUSIP numbers to be printed on the Notes and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Holders. No representation is made by the Company or the Trustee as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

17. Governing Law. This Note shall be governed by, and construed in accordance with, the laws of the State of New York.

The Company will furnish to any Holder upon written request and without charge to the Holder a copy of the Indenture which has in it the text of this Note. Requests may be made to:

The Black & Decker Corporation
701 East Joppa Road
Towson, Maryland 21286
Attention: Treasurer

ASSIGNMENT FORM

To assign this Note, fill in the form below:

I or we assign and transfer this Note to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint _____ agent to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Date: _____ Your Signature: _____

Signature Guarantee: _____
(Signature must be guaranteed)

Sign exactly as your name appears on the other side of this Note.

The signature(s) should be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program), pursuant to SEC Rule 17Ad-15.

[TO BE ATTACHED TO GLOBAL SECURITIES]
SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY
The following increases or decreases in this Global Security have been made:

<u>Date of Exchange</u>	<u>Amount of decrease in Principal Amount of this Global Security</u>	<u>Amount of increase in Principal Amount of this Global Security</u>	<u>Principal Amount of this Global Security following such decrease or increase</u>	<u>Signature of authorized signatory of Trustee or Securities Custodian</u>
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THE BLACK & DECKER 2003 STOCK OPTION PLAN

The proper execution of the duties and responsibilities of the executives and other key employees of The Black & Decker Corporation and its subsidiaries is a vital factor in the continued growth and success of the Corporation. Toward this end, it is necessary to attract and retain effective and capable employees to assume positions that contribute materially to the successful operation of the business of the Corporation. It will benefit the Corporation, therefore, to bind the interests of these persons more closely to its own interests by offering them an attractive opportunity to acquire a proprietary interest in the Corporation and thereby provide them with added incentive to remain in its employ and to increase the prosperity, growth, and earnings of the Corporation. This stock option plan will serve these purposes.

ARTICLE 1:00**Definitions**

The following terms wherever used herein shall have the meanings set forth below.

- 1:01 The term "Board of Directors" shall mean the Board of Directors of the Corporation.
 - 1:02 The term "Change in Control" shall have the meaning provided in Section 10:02 of the Plan.
 - 1:03 The term "Code" shall mean the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder.
 - 1:04 The term "Committee" shall mean the Compensation Committee of the Board of Directors.
 - 1:05 The term "Common Stock" shall mean the shares of common stock, par value \$.50 per share, of the Corporation.
 - 1:06 The term "Corporation" shall mean The Black & Decker Corporation.
 - 1:07 The term "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.
 - 1:08 The term "Fair Market Value of a share of Common Stock" shall mean the closing sale price per share of Common Stock as finally reported in the New York Stock Exchange Composite Transactions for the New York Stock Exchange, or if shares of Common Stock are not sold on such date, the closing sale price per share of Common Stock as finally reported in the New York Stock Exchange Composite Transactions for the New York Stock Exchange for the most recent prior date on which shares of Common Stock were sold.
 - 1:09 The term "Immediate Family Member" shall mean each of (i) the children, step children or grandchildren of the Initial Holder, (ii) the spouse or any parent of the Initial Holder, (iii) any trust solely for the benefit of any such family members, and (iv) any partnership or other entity in which such family members are the only partners or other equity holders.
 - 1:10 The term "Incentive Stock Option" shall mean any Option granted pursuant to the Plan that is designated as an Incentive Stock Option and that satisfies the requirements of Section 422(b) of the Code.
 - 1:11 The term "Initial Holder," with respect to an Option or Right granted under the Plan, shall mean the executive or other key employee of the Corporation granted the Option or Right.
 - 1:12 The term "Limited Stock Appreciation Right" shall mean a limited tandem stock appreciation right that entitles the holder to receive cash upon a Change in Control pursuant to Article 10:00 of the Plan.
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- 1:13 The term “Non-Qualified Stock Option” shall mean any Option granted pursuant to the Plan that is not an Incentive Stock Option.
- 1:14 The term “Option” or “Stock Option” shall mean a right granted pursuant to the Plan to purchase shares of Common Stock, and shall include the terms Incentive Stock Option and Non-Qualified Stock Option.
- 1:15 The term “Option Agreement” shall mean the written agreement representing Options granted pursuant to the Plan as contemplated by Article 6:00 of the Plan.
- 1:16 The term “Option Holder” shall mean the Initial Holder so long as he or she holds an Option initially granted to the Initial Holder, and thereafter shall mean the beneficiary or the Immediate Family Member to whom the Option has been transferred in accordance with Section 6:05 of the Plan.
- 1:17 The term “Plan” shall mean The Black & Decker 2003 Stock Option Plan as approved by the Board of Directors on February 13, 2003, and adopted by the stockholders of the Corporation at the 2003 Annual Meeting of Stockholders, as the same may be amended from time to time.
- 1:18 The term “Rights” shall include Stock Appreciation Rights and Limited Stock Appreciation Rights.
- 1:19 The term “Section 162(m) Regulations” shall mean the regulations adopted pursuant to Section 162(m) of the Code.
- 1:20 The term “Stock Appreciation Right” shall mean a right to receive cash or shares of Common Stock pursuant to Article 8:00 of the Plan.
- 1:21 The term “Stock Appreciation Right Agreement” shall mean the written agreement representing Stock Appreciation Rights granted pursuant to the Plan as contemplated by Article 8:00 of the Plan.
- 1:22 The term “Stock Appreciation Right Base Price” shall mean the base price for determining the value of a Stock Appreciation Right under Section 8:02 of the Plan, which Stock Appreciation Right Base Price shall be established by the Committee at the time of the grant of Stock Appreciation Rights pursuant to the Plan and shall not be less than the Fair Market Value of a share of Common Stock on the date of grant. If the Committee does not establish a specific Stock Appreciation Right Base Price at the time of grant, the Stock Appreciation Right Base Price shall be equal to the Fair Market Value of a share of Common Stock on the date of grant of the Stock Appreciation Right.
- 1:23 The term “Stock Appreciation Right Holder” shall mean the Initial Holder so long as he or she holds a Stock Appreciation Right initially granted to the Initial Holder, and thereafter shall mean the beneficiary or the Immediate Family Member to whom the Stock Appreciation Right has been transferred in accordance with Section 8:05 of the Plan.
- 1:24 The term “subsidiary” or “subsidiaries” shall mean a corporation, partnership, limited liability company, joint venture, or other legal entity of which the Corporation, either directly or together with any other subsidiary of the Corporation, owns more than 50% of the voting power in the election of directors or their equivalents.

ARTICLE 2:00

Effective Date of the Plan

- 2:01 The Plan shall become effective upon stockholder approval, provided that such approval is received on or before May 31, 2003, and provided further that the Committee may grant Options or Rights pursuant to the Plan prior to stockholder approval if such Options or Rights by their terms are contingent upon subsequent stockholder approval of the Plan.

ARTICLE 3:00

Administration

- 3:01 The Plan shall be administered by the Committee.
- 3:02 The Committee may establish, from time to time and at any time, subject to the limitations of the Plan as set forth herein, such rules and regulations and amendments and supplements thereto as it deems necessary to comply with applicable law and regulation and for the proper administration of the Plan.
- 3:03 The Committee shall from time to time determine the names of those executives and other key employees who, in its opinion, should receive Options or Rights, and shall determine the numbers of shares on which Options should be granted or upon which Rights should be based to each such person and the nature of the Options or Rights to be granted, including without limitation whether the Options or Rights shall be transferable in accordance with the terms and conditions provided in Section 6:12 or Section 8:11 of the Plan.
- 3:04 Options and Rights shall be granted by the Corporation only upon the prior approval of the Committee and upon the execution of an Option Agreement or Stock Appreciation Right Agreement between the Corporation and the Initial Holder.
- 3:05 The Committee's interpretation and construction of the provisions of the Plan and the rules and regulations adopted by the Committee shall be final. No member of the Committee or the Board of Directors shall be liable for any action taken or determination made, in respect of the Plan, in good faith.

ARTICLE 4:00

Participation in the Plan

- 4:01 Participation in the Plan shall be limited to such executives and other key employees of the Corporation and its subsidiaries who at the date of grant of an Option or Right are regular, full-time employees of the Corporation or any of its subsidiaries and who shall be designated by the Committee together with any permitted transferees in accordance with the terms and conditions of the Plan.
- 4:02 No member of the Board of Directors who is not also an employee shall be eligible to participate in the Plan. No employee who owns beneficially more than 10% of the total combined voting power of all classes of stock of the Corporation shall be eligible to participate in the Plan.
- 4:03 No employee may be granted, in any calendar year, Options or Stock Appreciation Rights exceeding 1,000,000 in the aggregate under the Plan.

ARTICLE 5:00

Stock Subject to the Plan

- 5:01 There shall be reserved for the granting of Options or Stock Appreciation Rights pursuant to the Plan and for issuance and sale pursuant to such Options or Stock Appreciation Rights 5,000,000 shares of Common Stock. To determine the number of shares of Common Stock available at any time for the granting of Options or Stock Appreciation Rights, there shall be deducted from the total number of reserved shares of Common Stock the number of shares of Common Stock in respect of which Options have been granted pursuant to the Plan that are still outstanding or have been exercised. The shares of Common Stock to be issued upon the exercise of Options or Stock Appreciation Rights granted pursuant to the Plan shall be made available from the authorized and unissued shares of

Common Stock. If for any reason shares of Common Stock as to which an Option has been granted cease to be subject to purchase thereunder, then such shares of Common Stock again shall be available for issuance pursuant to the exercise of Options or Stock Appreciation Rights pursuant to the Plan. Except as provided in Section 5:03 of the Plan, however, the aggregate number of shares of Common Stock that may be issued upon the exercise of Options and Stock Appreciation Rights pursuant to the Plan shall not exceed 5,000,000 shares and no more than 5,000,000 Stock Appreciation Rights shall be granted pursuant to the Plan.

- 5:02 Proceeds from the purchase of shares of Common Stock upon the exercise of Options granted pursuant to the Plan shall be used for the general business purposes of the Corporation.
- 5:03 Subject to the provisions of Section 10:01 of the Plan, in the event of reorganization, recapitalization, stock split, stock dividend, combination of shares of Common Stock, merger, consolidation, share exchange, acquisition of property or stock, or any change in the capital structure of the Corporation, the Committee shall make such adjustments as may be appropriate in the number of Options or Stock Appreciation Rights that may be granted to an employee in any calendar year, in the number and kind of shares reserved for purchase by executives or other key employees, in the number, kind and price of shares covered by Options and Stock Appreciation Rights granted pursuant to the Plan but not then exercised, and in the number of Rights, if any, granted pursuant to the Plan but not then exercised.

ARTICLE 6:00

Terms and Conditions of Options

- 6:01 Each Option granted pursuant to the Plan shall be evidenced by an Option Agreement in such form and with such terms and conditions (including, without limitation, non-compete, confidentiality or other similar provisions or provisions relating to transfer) as the Committee from time to time may determine. The right of an Option Holder to exercise his, her or its Option shall at all times be subject to the terms and conditions set forth in the respective Option Agreement.
- 6:02 The exercise price per share for Options shall be established by the Committee at the time of the grant of Options pursuant to the Plan and shall not be less than the Fair Market Value of a share of Common Stock on the date on which the Option is granted. If the Committee does not establish a specific exercise price per share at the time of grant, the exercise price per share shall be equal to the Fair Market Value of a share of Common Stock on the date of grant of the Options.
- 6:03 Each Option, subject to the other limitations set forth in the Plan, may extend for a period of up to 10 years from the date on which it is granted. The term of each Option shall be determined by the Committee at the time of grant of the Option, provided that if no term is established by the Committee the term of the Option shall be 10 years from the date on which it is granted.
- 6:04 Unless otherwise provided by the Committee, the number of shares of Common Stock subject to each Option shall be divided into four installments of 25% each. The first installment shall be exercisable 12 months after the date the Option was granted, and each succeeding installment shall be exercisable 12 months after the date the immediately preceding installment became exercisable. If an Option Holder does not purchase the full number of shares of Common Stock that he, she or it at any time has become entitled to purchase, the Option Holder may purchase all or any part of those shares of Common Stock at any subsequent time during the term of the Option.
- 6:05 Options shall be non-transferable and non-assignable, except that (i) Options may be transferred by testamentary instrument or by the laws of descent and distribution, and (ii) subject to the terms and conditions of the Option Agreement or any other terms and conditions imposed by the Committee from time to time, Options may be transferred in accordance with the terms and conditions provided in Section 6:12 of the Plan if the applicable Option Agreement or other action of the Committee expressly provides that the Options are transferable.

- 6:06 Upon voluntary or involuntary termination of an Initial Holder's employment, his or her Option (including any Option transferred in accordance with the terms and conditions provided in Section 6:12 of the Plan) and all rights thereunder shall terminate effective at the close of business on the date the Initial Holder ceases to be a regular, full-time employee of the Corporation or any of its subsidiaries, except (i) to the extent previously exercised, (ii) as provided in Sections 6:07, 6:08, and 6:09 of the Plan, and (iii) in the case of involuntary termination of employment, for a period of 30 days thereafter the Option Holder shall be entitled to exercise that portion of the Option that was exercisable at the close of business on the date the Initial Holder ceased to be a regular, full-time employee of the Corporation or any of its subsidiaries, provided that in no event may any Option be exercised after the expiration of the term of the Option.
- 6:07 In the event an Initial Holder (i) ceases to be an executive or other key employee of the Corporation or any of its subsidiaries due to involuntary termination, (ii) takes a leave of absence from the Corporation or any of its subsidiaries for personal reasons or as a result of entry into the armed forces of the United States, or any of the departments or agencies of the United States government, or (iii) terminates employment by reason of illness, disability, or other special circumstance, the Committee may consider his or her case and may take such action in respect of the related Option Agreement as it may deem appropriate under the circumstances, including accelerating the time previously granted Options may be exercised and extending the time following the Initial Holder's termination of employment during which the Option Holder is entitled to purchase the shares of Common Stock subject to such Options, provided that in no event may any Option be exercised after the expiration of the term of the Option.
- 6:08 If an Initial Holder dies during the term of his or her Option without the Option having been exercised in full, (i) the executor or administrator of his or her estate or the person who inherits the right to exercise the Option by bequest or inheritance in the event the Initial Holder was the Option Holder at the date of death or (ii) the Option Holder in the event the Option had been transferred in accordance with the terms and conditions provided in Section 6:12 of the Plan, shall have the right within three years of the Initial Holder's death to purchase the number of shares of Common Stock that the deceased Initial Holder (or Option Holder, as the case may be) was entitled to purchase at the date of death, after which the Option shall lapse, provided that in no event may any Option be exercised after the expiration of the term of the Option.
- 6:09 If an Initial Holder's employment is terminated without his or her Option having been exercised in full and (i) the Initial Holder is 62 years of age or older, or (ii) the Initial Holder has been employed by the Corporation or any of its subsidiaries for at least 10 years and the Initial Holder's age plus years of such employment total not less than 55 years, then such Initial Holder (or the Option Holder in the event the Option had been transferred in accordance with the terms and conditions provided in Section 6:12 of the Plan) shall have the right within three years of the Initial Holder's termination of employment to purchase the number of shares of Common Stock that the Initial Holder (or Option Holder, as the case may be) was entitled to purchase at the date of termination, after which the Option shall lapse, provided that in no event may any Option be exercised after the expiration of the term of the Option.
- 6:10 The granting of an Option pursuant to the Plan shall not constitute or be evidence of any agreement or understanding, express or implied, on the part of the Corporation or any of its subsidiaries to employ the Initial Holder for any specified period.
- 6:11 In addition to the general terms and conditions set forth in this Article 6:00 in respect of Options granted pursuant to the Plan, Incentive Stock Options granted pursuant to the Plan shall be subject to the following additional terms and conditions:
- (a) The aggregate fair market value (determined at the time the Incentive Stock Option is granted) of the shares of Common Stock in respect of which "incentive stock options" under Section 422 of the Code are exercisable for the first time by the Option Holder during any calendar year (under all such plans of the Corporation and its subsidiaries) shall not exceed \$100,000;

- (b) The Option Agreement in respect of an Incentive Stock Option may contain any other terms and conditions specified by the Board of Directors that are not inconsistent with the Plan, except that such terms and conditions must be consistent with the requirements for “incentive stock options” under Section 422 of the Code; and
- (c) Incentive Stock Options shall not be transferable in accordance with the terms and conditions provided in Section 6:12 of the Plan.

6:12 The Committee may provide, in the original grant of a Non-Qualified Stock Option or in an amendment or supplement to a previous grant, that some or all of the Non-Qualified Stock Options granted under the Plan are transferable by the Initial Holder to an Immediate Family Member of the Initial Holder, provided that (i) the Option Agreement, as it may be amended from time to time, expressly so provides or the Committee otherwise designates the Option as transferable, (ii) the transfer by the Initial Holder is a bona fide gift without consideration, (iii) the transfer is irrevocable, (iv) the Initial Holder and any such transferee provides such documentation or other information concerning the transfer or the transferee as the Committee or any employee of the Corporation acting on behalf of the Committee may from time to time request, and (v) the Initial Holder or the Option Holder complies with all of the terms and conditions (including, without limitation, any further restrictions or limitations) included in the Option Agreement. Any Non-Qualified Stock Option transferred in accordance with the terms and conditions provided in this Section 6:12 shall continue to be subject to the same terms and conditions that were applicable to such Non-Qualified Stock Option prior to the transfer. Notwithstanding any other provisions of the Plan, the Corporation shall not be required to honor any exercise of an Option by an Immediate Family Member of an Option transferred in accordance with the terms and conditions provided in this Section 6:12 unless and until payment or provision for payment of any applicable withholding taxes has been made.

ARTICLE 7:00

Methods of Exercise of Options

- 7:01 An Option Holder (or other person or persons, if any, entitled to exercise an Option hereunder) desiring to exercise an Option granted pursuant to the Plan as to all or part of the shares of Common Stock covered by the Option shall (i) notify either the Corporation at its principal office at 701 East Joppa Road, Towson, Maryland 21286, or the third party retained by the Corporation to administer the Plan to that effect, specifying the number of shares of Common Stock to be purchased and the method of payment therefor, and (ii) make payment or provision for payment for the shares of Common Stock so purchased in accordance with this Article 7:00.
- 7:02 Payment or provision for payment shall be made as follows:
- (a) The Option Holder shall deliver to the Corporation at the address set forth in Section 7:01 of the Plan United States currency in an amount equal to the aggregate purchase price of the shares of Common Stock as to which such exercise relates; or
 - (b) The Option Holder shall tender to the Corporation shares of Common Stock already owned by the Option Holder that, together with any cash tendered therewith, have an aggregate fair market value (determined based on the Fair Market Value of a share of Common Stock on the date the notice set forth in Section 7:01 of the Plan is received by the Corporation) equal to the aggregate purchase price of the shares of Common Stock as to which such exercise relates; or
 - (c) The Option Holder shall deliver irrevocable instructions to a broker to deliver promptly to the Corporation the amount of sale or loan proceeds necessary to pay the aggregate purchase price of the shares of Common Stock as to which such exercise relates and to sell the shares of Common Stock to be issued upon exercise of the Option and deliver the cash proceeds less commissions and brokerage fees to the Option Holder or to deliver the remaining shares of Common Stock to the Option Holder.

Notwithstanding the foregoing provisions, the Committee, in granting Options pursuant to the Plan, may limit the methods in which an Option may be exercised by any person and, in processing any purported exercise of an Option granted pursuant to the Plan, may refuse to recognize the method of exercise selected by the Option Holder (other than the method of exercise set forth in Section 7:02(a) of the Plan) if, (A) in the opinion of counsel to the Corporation, (i) the Initial Holder or the Option Holder is or within the six months preceding such exercise was subject to reporting under Section 16(a) of the Exchange Act and (ii) there is a substantial likelihood that the method of exercise selected by the Option Holder would subject the Initial Holder or the Option Holder to a substantial risk of liability under Section 16 of the Exchange Act, (B) in the opinion of the Committee, the method of exercise could have an adverse tax or accounting effect to the Corporation, or (C) in the opinion of counsel to the Corporation, the method of exercise selected by the Option Holder would subject the Corporation to a risk of liability under the Exchange Act.

- 7:03 In addition to the alternative methods of exercise set forth in Section 7:02 of the Plan, holders of Non-Qualified Stock Options shall be entitled, at or prior to the time the notice provided for in Section 7:01 of the Plan is provided to the Corporation, to elect to have the Corporation withhold from the shares of Common Stock to be delivered upon exercise of the Non-Qualified Stock Option that number of shares of Common Stock (determined based on the Fair Market Value of a share of Common Stock on the date the notice set forth in Section 7:01 of the Plan is received by the Corporation) necessary to satisfy any withholding taxes attributable to the exercise of the Non-Qualified Stock Option. The maximum number of shares that an Option Holder may elect to have withheld from the shares of Common Stock otherwise deliverable upon exercise shall be the number of shares that have an aggregate fair market value (based on the Fair Market Value of a share of Common Stock on the date of exercise) equal to the dollar amount of the minimum statutory withholding for federal, state, and local taxes, including payroll taxes, payable by the Option Holder. Alternatively, such holder of a Non-Qualified Stock Option may elect to deliver previously owned shares of Common Stock (which shares have been held for at least six months) upon exercise of the Non-Qualified Stock Option to satisfy any withholding taxes attributable to the exercise of the Non-Qualified Stock Option. Notwithstanding the foregoing provisions, the Committee may include in the Option Agreement relating to any such Non-Qualified Stock Option provisions limiting or eliminating the Option Holder's ability to pay his or her withholding tax obligation by withholding or delivering shares of Common Stock or, if no such provisions are included in the Option Agreement but in the opinion of the Committee such withholding or delivery of shares could have an adverse tax or accounting effect to the Corporation, at or prior to exercise of the Non-Qualified Stock Option the Committee may so limit or eliminate the Option Holder's ability to pay his or her withholding tax obligation with shares of Common Stock. Notwithstanding the foregoing provisions, a holder of a Non-Qualified Stock Option may not elect any of the methods of satisfying his or her withholding tax obligation in respect of any exercise if, in the opinion of counsel to the Corporation, (i) the Initial Holder or the holder of the Non-Qualified Stock Option is or within the six months preceding such exercise was subject to reporting under Section 16(a) of the Exchange Act and (ii) there is a substantial likelihood that the election or timing of the election would subject the Initial Holder or the holder of the Non-Qualified Stock Option to a substantial risk of liability under Section 16 of the Exchange Act.
- 7:04 An Option Holder at any time may elect in writing to abandon an Option in respect of all or part of the number of shares of Common Stock as to which the Option shall not have been exercised.
- 7:05 An Option Holder shall have none of the rights of a stockholder of the Corporation until the shares of Common Stock covered by the Option are issued upon exercise of the Option.

ARTICLE 8:00

Terms and Conditions of Stock Appreciation Rights

- 8:01 Each Stock Appreciation Right granted pursuant to the Plan shall be evidenced by a Stock Appreciation Right Agreement in such form and with such terms and conditions (including, without limitation, non-compete, confidentiality or other similar provisions or provisions relating to transfer) as the Committee from time to time may determine. Notwithstanding the foregoing provision, Stock Appreciation Rights granted in tandem with a related Option shall be evidenced by the Option Agreement in respect of the related Option. The right of a Stock Appreciation Right Holder to exercise his, her or its Stock Appreciation Right shall at all times be subject to the terms and conditions set forth in the respective Stock Appreciation Right Agreement.
- 8:02 Each Stock Appreciation Right shall entitle the holder, subject to the terms and conditions of the Plan, to receive upon exercise of the Stock Appreciation Right an amount, payable in cash or shares of Common Stock (determined based on the Fair Market Value of a share of Common Stock on the date the notice set forth in Section 9:01 of the Plan is received by the Corporation), equal to the Fair Market Value of a share of Common Stock on the date of receipt by the Corporation of the notice required by Section 9:01 of the Plan less the Stock Appreciation Right Base Price. Notwithstanding the foregoing provision, each Stock Appreciation Right that is granted in tandem with a related Option shall entitle the holder, subject to the terms and conditions of the Plan, to surrender to the Corporation for cancellation all or a portion of the related Option, but only to the extent such Stock Appreciation Right and related Option then are exercisable, and to be paid therefor an amount, payable in cash or shares of Common Stock (determined based on the Fair Market Value of a share of Common Stock on the date the notice set forth in Section 9:01 of the Plan is received by the Corporation), equal to the Fair Market Value of a share of Common Stock on the date of receipt by the Corporation of the notice required by Section 9:01 of the Plan less the Stock Appreciation Right Base Price.
- 8:03 Each Stock Appreciation Right, subject to the other limitations set forth in the Plan, may extend for a period of up to 10 years from the date on which it is granted. The term of each Stock Appreciation Right shall be determined by the Committee at the time of grant of the Stock Appreciation Right, provided that if no term is established by the Committee the term of the Stock Appreciation Right shall be 10 years from the date on which it is granted.
- 8:04 Unless otherwise provided by the Committee, the number of Stock Appreciation Rights granted pursuant to each Stock Appreciation Right Agreement shall be divided into four installments of 25% each. The first installment shall be exercisable 12 months after the date the Stock Appreciation Right was granted, and each succeeding installment shall be exercisable 12 months after the date the immediately preceding installment became exercisable. If a Stock Appreciation Right Holder does not exercise the Stock Appreciation Right to the extent that he, she or it at any time has become entitled to exercise the Stock Appreciation Right, the Stock Appreciation Right Holder may exercise all or any part of the Stock Appreciation Right at any subsequent time during the term of the Stock Appreciation Right.
- 8:05 Stock Appreciation Rights shall be non-transferable and non-assignable, except that (i) Stock Appreciation Rights may be transferred by testamentary instrument or by the laws of descent and distribution, and (ii) subject to the terms and conditions of the Stock Appreciation Right Agreement or any other terms and conditions imposed by the Committee from time to time, Stock Appreciation Rights may be transferred in accordance with the terms and conditions provided in Section 8:11 of the Plan if the applicable Stock Appreciation Right Agreement or other action of the Committee expressly provides that the Stock Appreciation Rights are transferable.
- 8:06 Upon voluntary or involuntary termination of an Initial Holder's employment, his or her Stock Appreciation Rights (including any Stock Appreciation Rights transferred in accordance with the terms and conditions provided in Section 8:11 of the Plan) and all rights thereunder shall terminate effective as of the close of business on the date the Initial Holder ceases to be a regular, full-time

employee of the Corporation or any of its subsidiaries, except (i) to the extent previously exercised, (ii) as provided in Sections 8:07, 8:08, and 8:09 of the Plan, and (iii) in the case of involuntary termination of employment, for a period of 30 days thereafter the Stock Appreciation Right Holder shall be entitled to exercise that portion of each Stock Appreciation Right that was exercisable at the close of business on the date the Initial Holder ceased to be a regular, full-time employee of the Corporation or any of its subsidiaries.

- 8:07 If an Initial Holder (i) ceases to be an executive or other key employee of the Corporation or any of its subsidiaries due to involuntary termination, (ii) takes a leave of absence from the Corporation or any of its subsidiaries for personal reasons or as a result of entry into the armed forces of the United States, or any of the departments or agencies of the United States government, or (iii) terminates employment by reason of illness, disability, or other special circumstance, the Committee may consider his or her case and may take such action in respect of the related Stock Appreciation Right Agreement as it may deem appropriate under the circumstances, including accelerating the time previously granted Stock Appreciation Rights may be exercised and extending the time following the Initial Holder's termination of employment during which the Stock Appreciation Right Holder is entitled to exercise the Stock Appreciation Rights, provided that in no event may any Stock Appreciation Right be exercised after the expiration of the term of the Stock Appreciation Right.
- 8:08 If an Initial Holder dies during the term of his or her Stock Appreciation Right without the Stock Appreciation Right having been exercised in full, (i) the executor or administrator of his or her estate or the person who inherits the right to exercise the Stock Appreciation Right by bequest or inheritance in the event the Initial Holder was the Stock Appreciation Right Holder at the date of death or (ii) the Stock Appreciation Right Holder in the event the Stock Appreciation Right had been transferred in accordance with the terms and conditions provided in Section 8:11 of the Plan, shall have the right within three years of the Initial Holder's death to exercise the Stock Appreciation Rights that the Initial Holder (or Stock Appreciation Right Holder, as the case may be) was entitled to purchase at the date of death, after which the Stock Appreciation Right shall lapse, provided that in no event may any Stock Appreciation Right be exercised after the expiration of the term of the Stock Appreciation Right.
- 8:09 If an Initial Holder's employment is terminated without his or her Stock Appreciation Right having been exercised in full and (i) the Initial Holder is 62 years of age or older, or (ii) the Initial Holder has been employed by the Corporation or any of its subsidiaries for at least 10 years and the Initial Holder's age plus years of such employment total not less than 55 years, then such Initial Holder (or the Stock Appreciation Right Holder in the event the Stock Appreciation Right had been transferred in accordance with the terms and conditions provided in Section 8:11 of the Plan) shall have the right within three years of the Initial Holder's termination of employment to exercise the Stock Appreciation Rights that the Initial Holder (or Stock Appreciation Right Holder, as the case may be) was entitled to exercise at the date of termination, after which the Stock Appreciation Right shall lapse, provided that in no event may any Stock Appreciation Right be exercised after the expiration of the term of the Stock Appreciation Right.
- 8:10 The granting of a Stock Appreciation Right pursuant to the Plan shall not constitute or be evidence of any agreement or understanding, expressed or implied, on the part of the Corporation or any of its subsidiaries to employ the Initial Holder for any specified period.
- 8:11 The Committee may provide, in the original grant of a Stock Appreciation Right or in an amendment or supplement to a previous grant, that some or all of the Stock Appreciation Rights granted under the Plan are transferable by the Initial Holder to an Immediate Family Member of the Initial Holder, provided that (i) the Stock Appreciation Right Agreement, as it may be amended from time to time, expressly so provides or the Committee otherwise designates the Stock Appreciation Right as transferable, (ii) the transfer by the Initial Holder is a bona fide gift without consideration, (iii) the transfer is irrevocable, (iv) the Initial Holder and any such transferee provides such documentation or other information concerning the transfer or the transferee as the Committee or any employee of the Corporation acting on behalf of the Committee may from time to time request, and (v) the Initial Holder or the Stock Appreciation Right Holder complies with all of the terms and conditions (including, without limitation, any further restrictions or limitations) included in the Stock

Appreciation Right Agreement. Any Stock Appreciation Right transferred in accordance with the terms and conditions provided in this Section 8:11 shall continue to be subject to the same terms and conditions that were applicable to such Stock Appreciation Right prior to the transfer. Notwithstanding any other provisions of the Plan, the Corporation shall not be required to honor any exercise of a Stock Appreciation Right by an Immediate Family Member of a Stock Appreciation Right transferred in accordance with the terms and conditions provided in this Section 8:11 unless and until payment or provision for payment of any applicable withholding taxes has been made.

ARTICLE 9:00

Methods of Exercise of Stock Appreciation Rights

- 9:01 A Stock Appreciation Right Holder (or other person or persons, if any, entitled to exercise a Stock Appreciation Right hereunder) desiring to exercise a Stock Appreciation Right granted pursuant to the Plan shall notify the Corporation in writing at its principal office at 701 East Joppa Road, Towson, Maryland 21286, to that effect, specifying the number of Stock Appreciation Rights to be exercised. Such written notice may be given by means of a facsimile transmission. If a facsimile transmission is used, the Stock Appreciation Right Holder should mail the original executed copy of the written notice to the Corporation promptly thereafter.
- 9:02 The Committee in its sole and absolute discretion shall determine whether a Stock Appreciation Right shall be settled upon exercise in cash or in shares of Common Stock. The Committee, in making such a determination, may from time to time adopt general guidelines or determinations as to whether Stock Appreciation Rights shall be settled in cash or in shares of Common Stock.

ARTICLE 10:00

Limited Stock Appreciation Rights

- 10:01 Notwithstanding any other provision of the Plan, the Committee, in its sole and absolute discretion, may grant Limited Stock Appreciation Rights entitling Option Holders to receive, in connection with a Change in Control, a cash payment in cancellation of all of their Options that are outstanding on the date the Change in Control occurs (whether or not such Options are then presently exercisable), which payment shall be equal to the number of shares covered by the cancelled Options multiplied by the excess over the exercise price of the Options of the higher of the (i) Fair Market Value of a share of Common Stock on the date of the Change in Control or (ii) the highest per share price paid for the shares of Common Stock in connection with the Change in Control (with the value of any non-cash consideration paid in connection with the Change in Control to be determined by the Committee in its sole and absolute discretion and if the Committee, in its sole and absolute discretion, determines that such valuation will comply with Section 409A of the Code). For purposes of this Section 10:01 as well as the other provisions of this Plan, once an Option or portion of an Option has terminated, lapsed or expired, or has been abandoned, in accordance with the provisions of the Plan, the Option (or the portion of the Option) that has terminated, lapsed or expired, or has been abandoned, shall cease to be outstanding. Limited Stock Appreciation Rights shall not be exercisable at the discretion of the Option Holder but shall automatically be exercised upon a Change in Control.
- 10:02 A "Change in Control" shall mean a change in control of the Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act, whether or not the Corporation is in fact required to comply therewith, provided that, without limitation, such a change in control shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or any of its subsidiaries, or a corporation owned, directly or indirectly, by the stockholders of the Corporation in substantially the same proportions as their ownership of stock of the Corporation, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing 20% or more of the combined voting power of the

Corporation's then outstanding securities; (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors and any new director (other than a director designated by a person who has entered into an agreement with the Corporation to effect a transaction described in clauses (i) or (iv) of this Section 10.02) whose election by the Board of Directors or nomination for election by the Corporation's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; (iii) the Corporation enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; or (iv) the stockholders of the Corporation approve a merger, share exchange or consolidation of the Corporation with any other corporation or entity, other than a merger, share exchange or consolidation that would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 60% of the combined voting power of the voting securities of the Corporation or such surviving entity outstanding immediately after the merger, share exchange or consolidation, or the stockholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all the Corporation's assets.

- 10:03 Limited Stock Appreciation Rights shall be non-transferable and non-assignable, except that Limited Stock Appreciation Rights shall automatically be transferred and assigned in tandem with a transfer of the related Options in accordance with Section 6:05 of the Plan.

ARTICLE 11:00

Amendments and Discontinuance of the Plan

- 11:01 The Board of Directors shall have the right at any time and from time to time to amend, modify, or discontinue the Plan provided that, except as provided in Section 5:03 of the Plan, no such amendment, modification, or discontinuance of the Plan shall (i) revoke or alter the terms of any valid Option, Stock Appreciation Right, or Limited Stock Appreciation Right previously granted pursuant to the Plan, (ii) increase the number of shares of Common Stock to be reserved for issuance and sale pursuant to Options or Stock Appreciation Rights granted pursuant to the Plan, (iii) decrease the price determined pursuant to the provisions of Section 6:02 of the Plan or increase the amount of cash or shares of Common Stock that a Stock Appreciation Right Holder is entitled to receive upon exercise of a Stock Appreciation Right, (iv) change the class of employee to whom Options or Stock Appreciation Rights may be granted pursuant to the Plan, (v) provide for Options or Stock Appreciation Rights exercisable more than 10 years after the date granted or (vi) increase the number of Options or Stock Appreciation Rights that may be granted to an employee in any calendar year under Section 4.03 of the Plan. If an amendment would (i) materially increase the benefits accruing to participants under the Plan, (ii) materially increase the aggregate number of securities that may be issued under the Plan, or (iii) materially modify the requirements as to eligibility for participation in the Plan, then to the extent required by applicable law or deemed necessary or advisable by the Committee or the Board of Directors, the amendment shall be subject to stockholder approval.

ARTICLE 12:00

Plan Subject to Governmental Laws and Regulations

- 12:01 The Plan and the grant and exercise of Options, Stock Appreciation Rights, and Limited Stock Appreciation Rights pursuant to the Plan shall be subject to all applicable governmental laws and regulations. Notwithstanding any other provision of the Plan to the contrary, the Board of Directors may in its sole and absolute discretion make such changes in the Plan as may be required to conform the Plan to such laws and regulations.

ARTICLE 13:00

Duration of the Plan

13:01 No Option or Stock Appreciation Right shall be granted pursuant to the Plan after the close of business on April 29, 2013.

February 10, 2006

Mr. Paul F. McBride
c/o The Black & Decker Corporation
701 East Joppa Road
Towson, Maryland 21286

Dear Paul:

The Black & Decker Corporation (the "Corporation") considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel. In this connection, the Board of Directors of the Corporation (the "Board") recognizes that, as is the case with many publicly held corporations, the possibility of a change in control of the Corporation may exist and that such possibility, and the uncertainty and questions that it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Corporation and its stockholders. The Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Corporation's management, including you, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Corporation, although no such change is now contemplated.

In order to induce you to remain in the employ of the Corporation, the Corporation agrees that you shall receive the severance benefits set forth in this letter agreement (this "Agreement") in the event of a "Change in Control of the Corporation" (as defined in Section 2) under the circumstances described below.

1. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect through December 31, 2011; provided, however, that if a Change in Control of the Corporation shall have occurred prior to December 31, 2011, this Agreement shall continue in effect for a period of 36 months beyond the month in which the Change in Control of the Corporation occurred, at which time this Agreement shall terminate. Notwithstanding the foregoing, and provided no Change in Control of the Corporation shall have occurred, this Agreement shall automatically terminate upon the earlier to occur of (a) your termination of employment with the Corporation, or (b) the Corporation's giving you notice of termination of this Agreement, regardless of the effective date of such termination.

2. Change in Control. No benefits shall be payable under this Agreement unless there shall have been a Change in Control of the Corporation. For purposes of this Agreement, a "Change in Control of the Corporation" shall mean a change in control of a nature that would be

required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Corporation is in fact required to comply therewith, provided that, without limitation, such a change in control shall be deemed to have occurred if (A) any "person" (as that term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or any of its subsidiaries or a corporation owned, directly or indirectly, by the stockholders of the Corporation in substantially the same proportions as their ownership of stock of the Corporation, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing 20% or more of the combined voting power of the Corporation's then outstanding securities; (B) during any period of two consecutive years, individuals who at the beginning of that period constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Corporation to effect a transaction described in clauses (A) or (D) of this Section) whose election by the Board or nomination for election by the Corporation's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved cease for any reason to constitute a majority of the Board; (C) the Corporation enters into an agreement, the consummation of which would result in the occurrence of a Change in Control of the Corporation; or (D) the stockholders of the Corporation approve a merger, share exchange or consolidation of the Corporation with any other corporation or entity, other than a merger, share exchange or consolidation that would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 60% of the combined voting power of the voting securities of the Corporation or the surviving entity outstanding immediately after the merger, share exchange or consolidation, or the stockholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all the Corporation's assets.

3. Vesting of Stock Options. Upon a Change in Control of the Corporation, you shall fully vest in all outstanding stock options granted to you under the Corporation's stock option plans. Each stock option shall continue to be exercisable for the term of that stock option. In accordance with the terms of The Black & Decker Performance Equity Plan (the "PEP") and The Black & Decker Corporation 2004 Restricted Stock Plan, respectively, the maximum number (150% of the target award for each performance period) of Performance Shares (as defined in the PEP) held by you shall be deemed to have been earned (and shall be paid in accordance with the payment provisions of the PEP) and all shares of restricted stock held by you shall become fully vested and no longer subject to forfeiture upon the occurrence of a Change in Control of the Corporation.

4. Termination Following Change in Control of the Corporation. If a Change in Control of the Corporation shall have occurred, you shall be entitled to the benefits provided in Section 5.2 upon the subsequent termination of your employment during the term of this Agreement unless the termination is (A) because of your death or Disability (as defined in

Section 4.1), (B) by the Corporation for Cause (as defined in Section 4.2), or (C) by you other than for Good Reason (as defined in Section 4.3).

4.1 Disability. If, as a result of your incapacity due to physical or mental illness, you shall have been absent from the full-time performance of your duties with the Corporation for six consecutive months and, within 30 days after a Notice of Termination (as defined in Section 4.4) is given to you, shall not have returned to the full-time performance of your duties, your employment may be terminated for "Disability."

4.2 Cause. Termination by the Corporation of your employment for "Cause" shall mean termination upon (a) the willful and continued failure by you to substantially perform your duties with the Corporation (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance by you of a Notice of Termination for Good Reason) after a written demand for substantial performance is delivered to you by the Board, which demand specifically identifies the manner in which the Board believes that you have not substantially performed your duties, or (b) the willful engaging by you in conduct that is demonstrably and materially injurious to the Corporation, monetarily or otherwise. For purposes of this Section 4.2, no act or failure to act on your part shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Corporation. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for that purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in clauses (a) or (b) of the first sentence of this Section 4.2 and specifying the particulars thereof in detail.

4.3 Good Reason. You shall be entitled to terminate your employment for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without your express written consent, the occurrence after a Change in Control of the Corporation of any of the following circumstances unless the circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

- (a) the assignment to you of any duties inconsistent with your current status as an executive of the Corporation or a substantial adverse alteration in the nature or status of your responsibilities from those in effect immediately prior to the Change in Control of the Corporation;
 - (b) a reduction by the Corporation in your annual base salary as in effect on the date of this Agreement or any subsequently established higher annual base salary, except for across-the-board salary reductions similarly affecting all senior executives of the Corporation and all senior executives of any person in control of the Corporation;
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(c) your relocation to a location not within 25 miles of your office or job location immediately prior to the Change in Control of the Corporation, except for required travel on the Corporation's business to an extent substantially consistent with your business travel obligations immediately prior to the Change in Control of the Corporation;

(d) the failure by the Corporation, without your consent, to pay to you any portion of your compensation to which you are entitled when such compensation is due;

(e) the failure by the Corporation to continue in effect any compensation plan in which you participated immediately prior to the Change in Control of the Corporation that is material to your total compensation, including but not limited to the Corporation's (i) Executive Annual Incentive Plan ("EAIP"), Annual Incentive Plan ("AIP") or other comparable annual compensation plan, (ii) stock option and restricted stock plans, and (iii) PEP or other comparable medium- or long-term compensation plan, or any substitute plan or plans adopted prior to the Change in Control of the Corporation; unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to the plan and the equitable arrangement provides substantially equivalent benefits not materially less favorable to you (both in terms of the amount of benefits provided and the level of your participation relative to other participants), or the failure by the Corporation to continue your participation therein (or in such substitute or alternative plan) on a basis not materially less favorable (both in terms of the amount of benefits provided and the level of your participation relative to other participants) than those you enjoyed immediately prior to the Change in Control of the Corporation;

(f) the failure by the Corporation to continue in effect any material benefit available to you immediately prior to the Change in Control of the Corporation, including without limitation (i) the failure to provide to you benefits substantially similar to those enjoyed by you under any of the Corporation's retirement, savings, life insurance, medical, dental, health and accident, or disability plans in which you were participating at the time of the Change in Control of the Corporation, (ii) the failure to continue to provide to you any material perquisite provided to you at the time of the Change in Control of the Corporation, (iii) the failure by the Corporation to provide to you the number of paid vacation days to which you are entitled on the basis of years of service with the Corporation in accordance with the Corporation's normal vacation policy in effect at the time of the Change in Control of the Corporation, or (iii) the taking of any action by the Corporation that would directly or indirectly materially reduce any of these benefits or deprive you of any material benefit or perquisite enjoyed by you at the time of the Change in Control of the Corporation;

(g) the failure of the Corporation to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 7.1; or

(h) any purported termination of your employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 4.4 (and, if applicable, the requirements of Section 4.2), which purported termination shall not be effective for purposes of this Agreement.

Your rights to terminate your employment pursuant to this Section 4.3 shall not be affected by your incapacity due to physical or mental illness. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason under this Section 4.3.

4.4 Notice of Termination. Any purported termination of your employment by the Corporation for Cause or Disability or by you for Good Reason shall be communicated by written Notice of Termination to the other party in accordance with Section 8. For purposes of this Agreement, a "Notice of Termination" shall mean a notice that indicates the specific termination provision in this Agreement relied upon and that sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

4.5 Date of Termination. Subject to the following sentence, "Date of Termination" shall mean (a) if your employment is terminated by your death, the date of your death; (b) if your employment is terminated for Disability, 30 days after Notice of Termination is given (provided that you shall not have returned to the full-time performance of your duties during the 30-day period); and (c) if your employment is terminated for any reason other than death or Disability, the date specified in the Notice of Termination. For purposes of clause (c) in the immediately preceding sentence, the date specified in the Notice of Termination shall not be less than 30 days from the date the Notice of Termination is given, except in the case of a termination pursuant to Section 4.3 such date shall not be less than 15 nor more than 60 days from the date that the Notice of Termination is given. If the party receiving the Notice of Termination notifies the other party within 15 days of receiving the Notice of Termination or, if later, prior to the Date of Termination (as determined without regard to this sentence) that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal has expired and no appeal has been perfected). The Date of Termination shall be extended by a notice of dispute only if the notice is given in good faith and the party giving the notice pursues the resolution of the dispute with reasonable diligence. Notwithstanding the pendency of the dispute, the Corporation will continue to pay you your full compensation in effect when the Notice of Termination giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, benefit and insurance plans in which you were participating

when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Section 4.5. Amounts paid under this Section 4.5 are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

5. Compensation Upon Termination. Upon termination of your employment following a Change in Control of the Corporation, you shall be entitled to the following benefits:

5.1 Termination for Cause or Without Good Reason or upon Disability or Death. If your employment shall be terminated by your death, by the Corporation for Cause or Disability, or by you without Good Reason, the Corporation shall pay you your full base salary through the Date of Termination at the rate in effect at the time of your death or Notice of Termination is given, as the case may be, plus all other amounts to which you are entitled under any retirement, insurance and other compensation programs of the Corporation at the time the payments are due, and the Corporation shall have no further obligations to you under this Agreement.

5.2 Termination Without Cause or Disability or for Good Reason. If your employment by the Corporation shall be terminated (A) by the Corporation other than for Cause or Disability or (B) by you for Good Reason, then you shall be entitled to the benefits provided below:

(a) The Corporation shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Corporation, at the time those payments are due, except as otherwise provided below.

(b) In lieu of any further salary payments to you for periods subsequent to the Date of Termination, the Corporation shall pay as severance pay to you a lump sum severance payment (the "Severance Payment") in an amount equal to:

(1) three times the sum of your (x) annual base salary in effect immediately prior to the occurrence of the circumstance giving rise to the Notice of Termination, and (y) Maximum Participant Award (as defined below); plus

(2) 150% of the product of (A) your annual base salary in effect immediately prior to your Date of Termination multiplied by (B) the percentage target used to calculate the number of Performance Shares awarded to you with respect to the most recent award under the PEP.

"Maximum Participant Award" means the maximum award that could be payable to you under the terms of the EAIP (if you were a participant in the EAIP immediately prior to the occurrence of the circumstances giving rise to the Notice of Termination), the AIP (if you were a participant in the AIP immediately prior to the occurrence of the circumstances giving rise to the Notice of

Termination), or other comparable or substitute annual compensation plan for the year in which the Date of Termination occurs, determined as if you remained a participant until the end of the year and all performance goals for that year that would entitle you to a maximum payment were met or exceeded.

(c) The Corporation shall also pay to you all legal fees and expenses incurred by you as a result of the termination (including all legal fees and expenses, if any, incurred in contesting or disputing the termination or in seeking to obtain or enforce any right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Internal Revenue Code (the "Code") to any payment or benefit provided under this Agreement).

(d) The Severance Payment plus interest shall be made on the date that is six months and one day following your "separation from service" as defined in Section 409A of the Code and the regulations promulgated thereunder. The Severance Payment shall bear interest at an annualized rate of 4.5% from and after your "Separation from Service" until paid pursuant to this Section 5.2(d).

5.3 Additional Benefits. If your employment shall be terminated (a) by the Corporation other than for Cause or Disability or (b) by you for Good Reason, then for a 36-month period after such termination, the Corporation shall arrange to provide to you life, disability, accident, medical, dental and health insurance benefits substantially similar to those that you are receiving immediately prior to the Notice of Termination. Benefits otherwise receivable by you pursuant to this Section 5.3 shall be reduced to the extent comparable benefits are actually received by you from another employer during the 36-month period following your termination, and any such benefits actually received by you shall be reported to the Corporation.

5.4 Mitigation. You shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise. The Corporation shall not be entitled to set off against the amount of any payment or benefit provided for in this Agreement any amounts owed to the Corporation by you, any compensation earned by you as the result of employment by another employer, or any retirement benefits to which you may be entitled under the Corporation's retirement or savings plans.

5.5 Other Benefit Plans. In addition to all other amounts payable to you under this Section 5, you shall be entitled to receive all benefits payable to you under any plan or agreement sponsored by the Corporation or any of its subsidiaries relating to retirement or other benefits in accordance with the terms of such plans or arrangements.

6. Gross-Up Payment.

6.1 Calculation of Gross-Up Payment. If the Severance Payment or any other portion of the Total Payments (as defined below) will be subject to the tax imposed by Section 4999 of the Code (the "Excise Tax"), the Corporation shall pay to you at the time specified in

Section 6.2 an additional amount (the "Gross-Up Payment") such that the net amount retained by you, after deduction of any Excise Tax on the Severance Payment and such other Total Payments and any federal and state and local income tax and Excise Tax upon the Gross-Up Payment, shall be equal to the amount of such Excise Tax, (i) any other payments or benefits received or to be received by you in connection with a Change in Control of the Corporation or your termination of employment (whether payable pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Corporation, its successors, any person whose actions result in a Change in Control of the Corporation or any corporation affiliated (or which, as a result of the completion of a transaction causing a Change in Control of the Corporation, will become affiliated) with the Corporation within the meaning of Section 1504 of the Code) (together with the Severance Payment, the "Total Payments") shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Corporation and acceptable to you ("Tax Counsel") the Total Payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4)(B) of the Code either to the extent such reasonable compensation is in excess of the base amount within the meaning of Section 280G(b)(3) of the Code or are otherwise not subject to the Excise Tax, (ii) the amount of the Total Payments that shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Total Payments or (B) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying clause (i), above), and (iii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by Tax Counsel in accordance with the principles of Sections 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, you shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of your residence on the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. If the Excise Tax is subsequently determined to be less than the amount taken into account under this Section 6.1 at the time of payment of the Gross-Up Payment, you shall repay to the Corporation at the time that the amount of such reduction in the Excise Tax is finally determined the portion of the Gross-Up Payment attributable to such reduction (plus the portion of the Gross-Up Payment attributable to the Excise Tax and federal and state and local income tax imposed on the Gross-Up Payment being repaid by you if such repayment results in a reduction in Excise Tax and/or a federal and state and local income tax deduction) plus interest on the amount of such repayment at the rate provided in Section 1274(d) of the Code. If the Excise Tax is determined to exceed the amount taken into account hereunder at the time of payment of the Gross-Up Payment (including by reason of any payment resulting from the existence or amount of which cannot be determined at the time of the payment of the Gross-Up Payment), the Corporation shall make an additional Gross-Up Payment in respect of such excess (plus any interest, penalties, and professional fees

incurred by you with respect to such excess, including all such taxes with respect to such additional amount) at the time that the amount of such excess is finally determined.

6.2 Payment of Gross-Up Payments. The payments provided for in Section 6.1 shall be made on the date that is six months and one day following your "separation of service" as defined in Section 409A of the Code and the regulations promulgated thereunder.

7. Successors; Binding Agreement.

7.1 Successors. The Corporation will require any successor to all or substantially all of the business or assets of the Corporation (whether direct or indirect, by purchase, merger, share exchange, consolidation or otherwise) to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if the succession had not taken place. Failure of the Corporation to obtain the assumption and agreement prior to the effectiveness of the succession shall be a breach of this Agreement and shall entitle you to terminate your employment for Good Reason following a Change in Control of the Corporation. As used in this Agreement, "Corporation" shall mean the Corporation as hereinbefore defined and any successor to its business or assets as described above that assumes and agrees to perform this Agreement by operation of law or otherwise.

7.2 Binding Agreement. This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, heirs, distributees, and legatees. Any amount payable to you under this Agreement at the time of your death, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your legatee or other designee or, if there is no such designee, to your estate.

7.3 Employment by a Subsidiary. If you are employed by a subsidiary of the Corporation, wherever in this Agreement reference is made to the "Corporation," unless the context otherwise requires, the reference shall also include the subsidiary. The Corporation shall cause the subsidiary to carry out the terms of this Agreement insofar as they relate to the employment relationship between you and the subsidiary, and the Corporation shall indemnify you and save you harmless from and against all liability and damage that you may suffer as a consequence of the subsidiary's failure to perform and carry out such terms. Wherever reference is made to any benefit program of the Corporation, the reference shall include, where appropriate, the corresponding benefit program of the subsidiary if you were a participant in the benefit program on the date a Change in Control of the Corporation has occurred.

8. Notice. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid. All notices to the Corporation shall be sent to the Corporation at 701 East Joppa Road, Towson, Maryland 21286 and directed to the attention of the Board with a copy to the Secretary of the Corporation and to you at your address listed on the Corporation's payroll, or to such other

address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

9. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless the waiver, modification or discharge is agreed to in writing and signed by you and an officer of the Corporation specifically designated by the Board. No waiver by either party at any time of any breach by the other party of any condition or provision of this Agreement to be performed by the other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. This Agreement constitutes the entire agreement between the parties hereto in respect of the matters set forth herein, and all prior negotiations, writings and understandings relating to the subject matter of this Agreement are superseded and cancelled by this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Maryland, without regard to its principles of conflicts of laws. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Corporation under Sections 5 and 6 shall survive the expiration of the term of this Agreement, provided that the Date of Termination occurred prior to such expiration.

10. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

11. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

12. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in the State of Maryland, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

13. Section Headings. The Section headings contained in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning or interpretation of this Agreement or any of its terms and conditions. All references to Sections in this Agreement are to Sections of this Agreement.

Mr. Paul F. McBride
February 10, 2006
Page 11

If you agree to the terms of this letter, please sign and return to the Corporation the enclosed copy which will then constitute our agreement on this subject.

Sincerely,

THE BLACK & DECKER CORPORATION

By: /s/ NOLAN D. ARCHIBALD
Nolan D. Archibald, Chairman

Agreed to as of the 20th day of February, 2006

/s/ PAUL F. MCBRIDE
Paul F. McBride

THE BLACK & DECKER CORPORATION AND SUBSIDIARIES

LIST OF SUBSIDIARIES

Listed below are the subsidiaries of The Black & Decker Corporation as of December 31, 2006. Names of certain inactive, liquidated, or minor subsidiaries have been omitted.

Baldwin Hardware Corporation	UNITED STATES
Biesemeyer Manufacturing Corporation	UNITED STATES
Black & Decker Abrasives Inc.	UNITED STATES
Black & Decker Inc.	UNITED STATES
Black & Decker (U.S.) Inc.	UNITED STATES
Black & Decker Funding Corporation	UNITED STATES
Black & Decker Group Inc.	UNITED STATES
Black & Decker HealthCare Management Inc.	UNITED STATES
Black & Decker Holdings Inc.	UNITED STATES
Black & Decker Holdings LLC	UNITED STATES
Black & Decker Investment Company	UNITED STATES
Black & Decker Investments LLC	UNITED STATES
Black & Decker Maryland LLC	UNITED STATES
Black & Decker (Ireland) Inc.	UNITED STATES
Black & Decker India Inc.	UNITED STATES
Black & Decker Investments (Australia) Limited	UNITED STATES
Black & Decker (Puerto Rico) LLC	UNITED STATES
Delta International Machinery Corp.	UNITED STATES
Devilbiss Air Power Company	UNITED STATES
Emglo Products LLC	UNITED STATES
Emhart Credit Corporation	UNITED STATES
Emhart Hartung Inc.	UNITED STATES
EII Maryland LLC	UNITED STATES
Emhart Technologies LLC	UNITED STATES
Kwikset Corporation	UNITED STATES
Newfrey LLC	UNITED STATES
Price Pfister Holdings Inc.	UNITED STATES
Price Pfister, Inc.	UNITED STATES
Shenandoah Insurance, Inc.	UNITED STATES
Sitelock LLC	UNITED STATES
Vector Products, Inc.	UNITED STATES
Weiser Lock Corporation	UNITED STATES
Black & Decker Argentina S.A.	ARGENTINA
Black & Decker (Australia) Pty. Ltd.	AUSTRALIA
Black & Decker Distribution Pty. Ltd.	AUSTRALIA

Black & Decker Finance (Australia) Ltd.	AUSTRALIA
Black & Decker Holdings (Australia) Pty. Ltd.	AUSTRALIA
Kwikset (Australasia) Pty. Ltd.	AUSTRALIA
Black & Decker Werkzeuge Vertriebs-Gesellschaft M.B.H	AUSTRIA
Black & Decker (Belgium) N.V.	BELGIUM
Black & Decker Do Brasil Ltda.	BRAZIL
Refal Industria e Comercio de Rebites e Rebitadeiras Ltda.	BRAZIL
Black & Decker Canada Inc.	CANADA
Black & Decker Holdings (Canada) Inc.	CANADA
Black & Decker (Cayman) Finance Limited	CAYMAN ISLANDS
Jointech Corporation, Ltd.	CAYMAN ISLANDS
Wintech Corporation Limited	CAYMAN ISLANDS
Maquinas y Herramientas Black & Decker de Chile S.A.	CHILE
Anzi Masterfix Tool Ltd.	CHINA
Black & Decker (Xiamen) Industrial Co. Ltd.	CHINA
Black & Decker (Suzhou) Co. Ltd.	CHINA
Black & Decker (Suzhou) Power Tools Co., Ltd.	CHINA
Black & Decker (Suzhou) Precision Manufacturing Co., LTD	CHINA
Qingdao Sungun Power Tool Co., Ltd.	CHINA
Shanghai Emhart Fastening Systems Ltd.	CHINA
Black & Decker de Colombia S.A.	COLOMBIA
Black & Decker (Czech) S.R.O.	CZECH REPUBLIC
Tucker S.R.O.	CZECH REPUBLIC
Emhart Harttung A/S	DENMARK
Black & Decker Oy	FINLAND
Black & Decker Finance ScA.	FRANCE
Black & Decker (France) S.A.S.	FRANCE
Emhart Fastening & Assembly SNC	FRANCE
Emhart S.A.R.L.	FRANCE
BD Beteiligungs G.m.b.H. & Co. K.G.	GERMANY
B.B.W. Bayrische Bohrerwerke G.m.b.H.	GERMANY
Black & Decker G.m.b.H.	GERMANY
Masterfix Verbindungssysteme GMBH	GERMANY
Tucker G.m.b.H.	GERMANY
Black & Decker (Hellas) S.A.	GREECE
Black & Decker Hong Kong Limited	HONG KONG
Emhart Asia Limited	HONG KONG
Hangtech Limited	HONG KONG
Baltimore Financial Services Company	IRELAND
Baltimore Insurance Limited	IRELAND
Belco Investments Company	IRELAND
Black & Decker (Ireland)	IRELAND
Chesapeake Falls Holdings Company	IRELAND
Gamrie Limited	IRELAND
Black & Decker Italia S.P.A.	ITALY

Fasteners & Tools, Ltd.	JAPAN
Nippon Pop Rivets & Fasteners Ltd.	JAPAN
Black & Decker (Overseas) A.G.	LIECHTENSTEIN
Black & Decker Limited S.A.R.L.	LUXEMBOURG
Black & Decker Luxembourg Finance S.C.A.	LUXEMBOURG
Black & Decker Luxembourg S.A.R.L.	LUXEMBOURG
Chesapeake Investments Company S.A.R.L.	LUXEMBOURG
Black & Decker Macao	MACAO
Black & Decker Asia Pacific (Malaysia) Sdn. Bhd.	MALAYSIA
Black & Decker de Reynosa S. de R.L. de C.V.	MEXICO
Black & Decker HHI Mexico, S. de R.L. de C.V.	MEXICO
Black & Decker, S.A. de C.V.	MEXICO
DeWalt Industrial Tools, S.A. de C.V.	MEXICO
Grupo Black & Decker Mexico, S. de R.L. de C.V.	MEXICO
Weiser Lock Mexico, S. De R.L. De C.V.	MEXICO
Black & Decker (Nederland) B.V.	NETHERLANDS
Black & Decker Far East Holdings B.V.	NETHERLANDS
Black & Decker Hardware Holdings B.V.	NETHERLANDS
Black & Decker International Holdings B.V.	NETHERLANDS
Black & Decker Overseas Holdings B.V.	NETHERLANDS
Interfast B.V.	NETHERLANDS
Masterfix Products B.V.	NETHERLANDS
Black & Decker (New Zealand) Limited	NEW ZEALAND
Black & Decker (Norge) A/S	NORWAY
Emhart Sjong A/S	NORWAY
Black & Decker de Panama, S.A.	PANAMA
Black & Decker International Corporation	PANAMA
Emhart Panama S.A.	PANAMA
Black & Decker Del Peru S.A.	PERU
Masterfix Poland	POLAND
Black & Decker Asia Pacific Pte. Ltd.	SINGAPORE
Emhart Fastening Technologies Korea, Inc.	SOUTH KOREA
Black & Decker Iberica S.Com por A.	SPAIN
Black & Decker Aktiebolag	SWEDEN
Emhart Teknik Akteibolag	SWEDEN
Black & Decker (Switzerland) S.A.	SWITZERLAND
Emhart A.G.	SWITZERLAND
Joinery Industrial Co., Ltd.	TAIWAN
Black & Decker (Thailand) Limited	THAILAND
Emhart Technologies (Thailand) Ltd.	THAILAND
Aven Tools Limited	UNITED KINGDOM
Bandhart	UNITED KINGDOM
Bandhart Overseas	UNITED KINGDOM
Black & Decker Batteries Management Limited	UNITED KINGDOM
Black & Decker Finance	UNITED KINGDOM

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements of The Black & Decker Corporation of our reports dated February 14, 2007, with respect to the consolidated financial statements and schedule of The Black & Decker Corporation and Subsidiaries, The Black & Decker Corporation and Subsidiaries' management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of The Black & Decker Corporation and Subsidiaries, included in this Annual Report (Form 10-K) for the year ended December 31, 2006.

Registration Statement Number	Description
33-26917	Form S-8
33-33251	Form S-8
33-47652	Form S-8
33-58795	Form S-8
33-65013	Form S-8
333-03593	Form S-8
333-51155	Form S-8
333-51157	Form S-8
333-35986	Form S-8
333-113283	Form S-8
333-115301	Form S-8
333-138604	Form S-3 ASR

/s/ ERNST & YOUNG, LLP

Baltimore, Maryland

February 14, 2007

<u>/S/ ANTHONY LUISO</u> Anthony Luiso	Director	February 8, 2007
<u>Robert L. Ryan</u>	Director	February 8, 2007
<u>/S/ MARK H. WILLES</u> Mark H. Willes	Director	February 8, 2007
<u>/S/ MICHAEL D. MANGAN</u> Michael D. Mangan	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 8, 2007
<u>/S/ CHRISTINA M. McMULLEN</u> Christina M. McMullen	Vice President and Controller (Principal Accounting Officer)	February 8, 2007

**THE BLACK & DECKER CORPORATION
CERTIFICATIONS**

I, Nolan D. Archibald, certify that:

1. I have reviewed this annual report on Form 10-K of The Black & Decker Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ NOLAN D. ARCHIBALD
Nolan D. Archibald
Chairman, President, and Chief Executive Officer
February 14, 2007

**THE BLACK & DECKER CORPORATION
CERTIFICATIONS**

I, Michael D. Mangan, certify that:

1. I have reviewed this annual report on Form 10-K of The Black & Decker Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHAEL D. MANGAN
Michael D. Mangan
Senior Vice President and Chief Financial Officer
February 14, 2007

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of The Black & Decker Corporation (the "Corporation") on Form 10-K for the period ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nolan D. Archibald, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ NOLAN D. ARCHIBALD _____

Nolan D. Archibald
Chief Executive Officer
February 14, 2007

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of The Black & Decker Corporation (the "Corporation") on Form 10-K for the period ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael D. Mangan, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ MICHAEL D. MANGAN

Michael D. Mangan
Chief Financial Officer
February 14, 2007
