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## SWK - Q3 2010 Stanley Black & Decker, Inc. Earnings Conference Call

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## PRESENTATION

**Operator**

Good morning. My name is Stephanie and I will be your conference operator today. At this time, I would like to welcome everyone to the Stanley Black & Decker third quarter 2010 results conference call.

(Operator Instructions).

Thank you. Kate White, you may begin your conference.

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Thank you, Stephanie.

Good morning, everyone, and thank you all for joining us on the Stanley Black & Decker third quarter 2010 conference call. On the call, in addition to myself, is John Lundgren, President and CEO, Jim Loree, Executive Vice President and COO, and Don Allan, Senior Vice President and CFO.

I would like to point out that our third quarter earnings release, which was issued this morning, and a supplemental presentation, which we will refer to during the call, are available on the Investor Relations portion of our website, www.stanleyblackanddecker.com. This morning, Jim, John, and Don will review Stanley's third quarter's 2010 results and various other topical matters, followed by a Q-and-A session. The entire call is expected to last approximately one hour. Replay of the call will be available today beginning at 2 PM. The replay number and access code are in our press release, and as a reminder you can download the earnings replay as a podcast from iTunes and even set up a subscription . As always, please feel free to contact me with any follow-up questions after today's call.

We will ask during the Q-and-A portion that we stick to one question and one follow-up question, due to the amount of questions and the time that we do have allotted for the call. And as usual, we will be making some forward-looking statements during the call. Such statements are based on assumptions of future events that may not prove to be accurate and as such, they involve risk and uncertainty. It is therefore possible that actual results might differ materially from any forward-looking statements that we might make today, and we direct you to the cautionary statements in the Form 8-K which we filed with today's press release and in our most recent 1934 Act.

With that, I will now turn the call over to our CEO, John

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Thanks, Kate and good morning, everybody.

As Kate said, our press release was out this morning, and the headlines or highlights that you should have taken away are that some good, solid organic growth has resumed and our integration process is exceeding quite well, and perhaps ahead of expectations. We reported pro forma revenues of an increase of 11%, to $2.4 billion. Organic revenues up 8%, as the legacy Stanley and legacy Black & Decker businesses grew 7% and 9%, respectively. $0.97 diluted EPS excluding the charges, $0.73 GAAP earnings including the charges, strong free cash flow, $234 million. That excludes one-time payments of the $81 million, as outlined in our press release.

The CDIY segment grew. Organic revenues were up 7%, and there was quite a lot of successful new product activity that Jim Loree is going to highlight for you in a few minutes. We saw top line growth in convergent, albeit a modest 1%. Order trends are increasing, and our French security business, SSDS, Stanley Solutions de Securite, formerly the ADT France business, turned profitable during the quarter. That is extremely noteworthy, that six to nine months earlier than our projections and, remember this is a business that was losing up to $15 million a year for the last two years. Bernard [Recharme] and his team in France and in Europe is doing a really good job putting those two businesses together and turning them profitable well ahead of schedule.

The customer restocking moderated within the industrial segment and end-user demand did remain strong. Our full year guidance, we increased. Excluding one-time charges, we increased our range to $3.81 to $3.91, and it's $3.60 to $3.70 if we exclude the $0.21 second quarter 2010 tax-related benefit that we achieved. Strong free cash flow has led us to increase our free cash flow guidance for the year. Now we expect to exceed $700 million, where previously we thought that $600 million or slightly above $600 million was a more appropriate target. And last but not least, our cost synergy estimate for 2010 has increased from $125 million as -- to $125 million -- as the integration progress remains ahead of plan.

Now you're going to see the impact of the increase from $90 million to $125 million in Don's outlook in a few minutes, but essentially we've taken the third quarter performance, which was driven by both improved volume and synergy achievement, and rolled it into the annual guidance, in conjunction with a slight improvement in fourth quarter outlook driven primarily by the improved synergy realization, and we've rolled that into our annual guidance as well.

Looking quickly around the globe, we saw organic revenue growth in every geographic market. If we look at our large to established markets, middle left, the US, which represents 56% of our total, and Europe, which represents 24% of our total, mid- to high single digit growth in both of those markets. Looking at our smaller established markets, specifically Canada and Australia, they showed reasonable growth as well, 8% in Australia and 11% in Canada, while the emerging markets really, really began to gain or keep the further traction. Latin America grew an extraordinary 27%, off a high $500 million base, and we saw strong growth in Asia as well, albeit off a lower base, but 23% organic growth across Asia.

Looking to our results. The earnings increased 26% as stated, excluding the one-time costs. The $0.97 excluded $58 million, or $0.24 a share, and we provide significant detail, in the press release on page four, of the makeup of those charges, including both the cash and non-cash elements. Importantly, the Q3 2009 excludes any impact of Black & Decker, as that transaction did not close, as you well know, until the middle of March, 2010. I think the other point worthy of note on the chart as it relates to margins and tax rate, 27% tax rate, which Don will explain, is more in line with what we anticipate the ongoing tax rate to be. We achieved the $0.97 with the 27% tax rate. If you compare that to year ago, the 22.1% tax rate included a large audit settlement that we were able to book in the third quarter of 2009. So aided by $45 million of realized synergies that hit the P & L in the third quarter, we got to $0.97.

Looking at sources of growth, as mentioned previously, 8% organic growth on a pro forma basis. So across-the-board, with the exception of legacy Stanley Mechanical Security, we grew in every business and that was quite encouraging. The sources of growth on the left, as you can see were 7%. Currency was a negative 2% impact. Remember the currency, particularly the Euro relative to the dollar, has changed dramatically in the last six or eight weeks, but currency was negative 2% in the quarter. And then of course the large additions in the impact of the Black & Decker business, and to a lesser extent, our CRC Evans acquisition. I think more importantly, on the right hand side, if we look at the legacy Stanley, legacy Black & Decker businesses, good high single digit organic growth in aggregate, the strength clearly in industrial, but strong performance in CDIY and Security, essentially flat across the combination of the two businesses to get us to our total -- blended total of 8%.

New products, as I mentioned earlier, contributed to the volume. Good performance in emerging markets, strong industrial order flow, all helping those numbers, and Jim is going to give you more detail on the segments on that in just a minute.

I think the integration remains of very high interest to, certainly to us, and everyone on the call, and it's on track with several key initiatives well ahead of schedule. The process remains disciplined. We've certainly not stopped the rhythm and rigor around putting these two companies together. The steering committee meets on a biweekly basis with the six most senior executives in the Company. The majority of the original integration team, you will recall, the integration teams consisted -- the 13 teams -- consisted of a Stanley executive, a Black & Decker executive and an outside consultant from Bain & Company. Many of them have been deployed back to the business or they've been able to be redeployed to work on some revenue synergy projects, and that's a very important thing, so the majority of these teams are led by now one person. Some are led by two, and internalization is complete, simply meaning we're finished with our outside counsel. It served us extremely well, but we've taken this process over on our own and there's some cost savings, of course, associated with that.

The cost synergies are absolutely ahead of plan. $45 million realized in the third quarter, which has allowed us to take our estimate of what we will actually achieve in 2010 up to $125 million. That's up $35 million from our last estimate, due primarily to effective execution. The biggest areas, or the most important areas, where we're achieving it is in sourcing and within the regional business units, the consolidation of hand and power tools, although there are a plethora of examples where both functional and business projects are ahead of schedule, those being the two largest impacts.

As a consequence, we are likely to exceed the $350 million target that we've given from the outset of putting these two companies together and, as we said in our press release, we are refining the estimate and the extent of outperformance and how much we're going to reinvest in growth projects. And we will intend, when the year is finished in December, when we report in January, to give a precise estimate of how high up can be and what we intend to do with any overachievement.

We've made the points before, but I think it's worth reemphasizing. To the extent we exceed the cost synergies, we're going to look very hard at costs to achieve the incremental synergies. If it's not a good business proposition we're not going to do it. We're also going to look at the business risk associated, the risk to fill rates, the risk to the organization, the risk to anything that matters in terms of how we run our business, and judgmentally weigh that against the added value of the opportunity to achieve synergies. And of equal or greater importance, what I just mentioned, to the extent we do exceed $350 million, we think it's quite prudent, given the existing environment, to reinvest some of that overachievement in driving growth at or above the rate of the market, some of which we've already done and some of which we will continue in the years going forward.

Last but not least, I want to touch on revenue synergies. They are compelling, we're refining them as well as who to assign, how and where to assign the appropriate accountability, the timing and what the opportunities are. The regional business teams have already begun to implement some quick hits and you saw that in the top line growth in the third quarter and, as we've said previously, the geographic opportunities, for an example Latin America, are likely among the earliest and the largest. Some of the other very meaningful revenue synergies are still there. They're gaining traction. We're being able to quantify them better and better as time goes on, but they will take a little longer than some of the geographic synergies.

Now let me turn it over to Jim Loree to talk about some of the new product successes that helped us in the third quarter, as well as give you a look at some more detail with inside the segments.

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**Jim Loree** - *Stanley Black & Decker, Inc. - EVP & COO*

Okay. Thanks, John.

It's never a better time than during a downturn to redouble your efforts on new product development and share gain, and both companies had been doing that during this last downturn, and I think what we're seeing now is the manifestation of that, not just in power tools, but across the Company and across the globe. But in power tools it's perhaps one of the most exciting product introductions in years for the Black & Decker legacy businesses, with three new families of compact cordless 12-volt lithium ion power tools now hitting the market.

Each of these families, the Black & Decker, the de Walt and the Porter cable families, are uniquely designed for their target markets. Each are differentiated to offer compelling value propositions versus competitive lines, and so far the market reaction has been outstanding. Simply put they are the best 12-volt cordless compact tools in the marketplace. And I encourage you to go to the website and research them some more, go to the stores, because they are in stores as we speak and I would say in addition to the power tools, the hand tool business and the freshness of the product line is also extremely high, with a rollout of a new storage line at a large US mass merchant, with the introduction of FatMax mechanics tools and air tools for the Canadian market, and if course the Bostitch hand tools that were introduced earlier this year, which have been extremely well received and are performing even better at the point-of-sale than the FatMax introduction of about five, six years ago. So lots going on in the construction and DIY business. Clearly, it is off the defense and on to the offense for this segment, but I mentioned that across the Company there's activity going on.

Let's turn to Security. You can look at the three pictures here. First the Audio Intrusion Panel. This is a new mid-price point panel for Sonitrol customers, which cuts their installation cost for a small business installation by about 30%. And in the healthcare, the SpaceTRAX RFID Inventory Management system is an RFID based ConBon system for hospital supplies, which greatly enhances nurses' productivity in the hospitals. And then the six panel telescoping door on the right there is designed to provide maximum clearance for openings for retailers where space is limited. For instance, it allows a 50-inch wide pass through in a 70-inch wide opening, which may not sound like a lot but that is the highest ratio of pass through to rough opening that we're aware of in the marketplace. That product will replace the clunky bifold doors that you often see in major pharmacies, it will also open up the manual door market at gas stations, convenience stores and small retailers, so it's a market expansion play as well.

Now moving to Industrial, the industrial segment and down to engineered fastening, we have an exciting new stud welding system being introduced, as we speak, in the Emhart Technologies business. This system replaces a very successful but dated system that was first introduced in 2002 and is still the market leading system. The first installation of this new system occurs this quarter at a major German auto manufacturer. Key features, this is easily networked. It's highly programmable. A technician or an engineer at an auto OEM's headquarters can monitor the performance of these systems all around the world when they are installed. It uses 70% less air, so it is environmentally friendly. It has a much faster feeding mechanism which provides for productivity, exceptionally high levels of quality and it's just another key product development that keeps our Emhart business ahead of the competition.

And then finally,moving over to Industrial and Automotive repair, there is also a very important product introduction going on which is called the EXPERT line, and this is a global product family of professional hand tools for industrial and automotive repair at the mid-price point. It replaces five brands, [Tonopest], Reno, Britt Tool and two others, and when completely implemented it will reduce the SKU count from 7,000 to about 2,500, and yet each one of those served markets for those brands will have a broader product line covering that market area. It has a complete offering of high quality tools at a value price point and, as I said, it offers a global market coverage and is essential to penetrate the emerging markets, where the price points are a bit lower. So it's a very strategic offering and introduction for the industrial and automotive repair business.

If we shift now and have a look at the CDIY segment, they had a terrific organic growth quarter. They grew their total revenues to $1.3 billion, roughly at a $5 billion run rate. The legacy CDIY Stanley business was up 8% organically, worldwide product tools and accessories up 7%, and as you can see and John mentioned, revenues grew in all regions of the world, led by Latin America, which had volume increases of 26%, and Asia, which was up 14% in this segment. North America, despite the weakness in the marketplace, was up 6%, and EMEA was up 9%. And interestingly, now emerging markets in this segment account for about 20% of sales, and with them growing at about a 20% rate that gives about four points of organic growth to their total segment, which is a nice growth booster. And it will be especially nice when the core markets in North America and Europe pick up and we'll have that additive volume increase on top of things.

We talked at length about the new 12-volt contact lithium product, won't dwell on that, as well as the hand tool introductions. I will touch upon the segment profit rate, which improved 360 basis points on a pro forma basis, even though when you look at the Stanley 14% legacy last year, it's now mixing into a 13.2% in the third quarter 2010 and the combined Company. But the important part is the pro forma comparison up from 9.6% to 13.2% with productivity, the cost synergies and operating leverage more than offsetting headwinds, such as FX and inflation.

There has been some chatter in the early notes about concerns regarding sequential decline in construction and DIY segment -- CDIY segment profit rate. Start by mentioning that, we did mention that on the last call, that we expected to see some degradation in the profit rate so it shouldn't come as a surprise. It was a 2.4 point sequential decline, and it was driven by the new product introduction rollout for the lithium ion. We did have some FX and inflation impact as well, and we also had a mix impact going from high outdoor content in Q2 to lower outdoor content in Q3, something which generally happens every year and one should be aware of in this business. So we're going to have some fluctuation in the operating margin rates from quarter to quarter, nothing to be concerned about. A lot of it had to do with spending on the lithium ion introductions.

Now, we'll move over to Security. Today it's about 25% of the Company. The total revenues were up 40% to $563 million. All of the growth was derived from acquisitions, including the SSDS as John mentioned, the formerly ADT France acquisition, as well as the Black & Decker merger accounting for that growth. Our legacy Stanley Security Solutions business was actually down 3% organically and the HHI business was up 3%.

As you can see from the regional revenue, it's still fairly North American centric and the segment profit rate was down 360 basis points, but only 280 of that -- or 280, if you exclude the acquisition. So, a very high third quarter 2009 profit rate and a much more normalized third quarter 2010 at 18%, excluding HHI and SSDS. We were very positive about what we observed in the Convergent Security Solutions business with their first organic growth quarter in quite some time, but even just up 1%. But what was really encouraging was the order rates, which were up 11%. So very, very significant improvement in backlog, which is encouraging. The national accounts are gaining momentum. The small accounts have stabilized, and so looks like a pretty good story there with RMR growth in the quarter and orders improving.

We talked a little bit about SSDS already. The works council process is complete. The restructuring is well under way. That will occur for probably the next six months or so, and the OM percent should approach line average by the end of 2011.

And then Healthcare Solutions, which also had nice performance up 9% organically, strength across the platform, and the 2011 healthcare acquisition pipeline is growing, so that's a growth platform for the Company. I'd expect to see some activity there as we go forward.

On the mechanical side, they're still battling tough market conditions. They had a negative 6% organic growth in legacy Stanley, five points of that was attributable to a large retail customer destocking residential hardware. That was pretty much as expected. We also had Access Technologies, good performance there with strong service, strong remodeling activity, offset by continued commercial hardware weakness, which is market related and was down 3% in the best Access business, the mechanical access solution. And then Black & Decker HHI was a bright spot, with 3% organic growth, Kwikset Smart Key successes continue, and the Baldwin Prestige line is being well accepted, and that more than countered the market weakness they encountered as well with inventory corrections in their business. And then the operating margin rate for the mechanical business was pretty much consistent with the prior year, despite their volume issues, which I think was an achievement.

Now the star of the quarter from a segment perspective was Industrial. Their total revenues were up 152% to $517 million, with a stunning 26% organic growth in the legacy Stanley industrial business. Remember that comes against some fairly easy comps, but still a great achievement, and then equally as impressive, 27% growth in the Emhart Technologies business. Profit rate was up substantially. A lot of that was driven by the mix into Emhart which was very profitable, as well as CRC Evans, successful integration of that acquisition continues. As we move to the various pieces and parts, the industrial and automotive repair business had a nice quarter, with volume up 20%. The inventory restocking continued at the customer level but at a smaller pace, and we feel that about two thirds of the growth was attributable to end-user demand increases, and clearly some share gains going on in this business, and we also had strength in our Asian emerging markets.

Within Europe, the organic revenues were up 9%. North America IAR, which includes Mac, Proto and Vidmar, was up 40%, with Proto share gains really at a fairly significant level, as they continue to penetrate distribution more deeply and continue to bring some new products into the mix. And then engineered fastening sales growth was driven by strong OEM production rates in Americas and in Japan, and they also achieved record operating profit. But interesting, global auto production was only up 8% overall, so this business also benefited from mix, customer mix, platform mix within customers, geographic mix, and just general good market performance, operating performance in the business. And then finally, CRC Evans contributed $49 million to revenues and 70 basis points to the profit rate.

Move now to working capital, very briefly. There's about $2 billion now in working capital. We had a nice 0.4, or 10% increase, in the turns to 4.6, but included in that 4.6 is sort of a dichotomy between the legacy Stanley, which is about 8.3 turns and accounts for about $500 million of that $2 billion of working capital, and the remainder is associated with the Black & Decker and some of the new acquisitions that we did this year. So an 11% overall sales increase, working capital is up 1%, but when you look at the components, such as inventory for example, which is at 85 days, legacy Stanley is at 68 and legacy Black & Decker is at 98, so huge room for opportunity there. And we have similar, but not as dramatic, room for improvement in the DSO which is 65 days in total but 61 Stanley legacy and 69 Black & Decker legacy. And then in payables, there clearly is a big opportunity there as well,l with a 62 day overall average, but with legacy Stanley at 74 days and legacy Black & Decker at 53.

So that kind of highlights the opportunity, and we'll talk more as we go on here over the coming quarters about how the Stanley fulfillment system principles will be applied to the Black & Decker legacy activities, as well as some of the new acquisitions to extract over as much as we can out of this $2 billion of working capital. And clearly there is an opportunity of some substantial magnitude, if you consider the fact that legacy Stanley is at 8.3 turns. If we could get that 4.6 up a couple turns, it would really result in hundreds of millions of dollars of incremental improvement.

So with that, I'm going to turn it over to Don Allan, who is going to take you through some more details on the financials.

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**Don Allan** - *Stanley Black & Decker, Inc. - VP & CFO*

Thank you, Jim.

If we start with free cash flow statement here. Just a reminder to everyone, it does exclude special charges, so we had special payments related to the merger in the third quarter of $81 million and year-to-date $200 million. Obviously you can see the effect of the merger, and the net income and the depreciation and amortization increasing significantly year-over-year by about $140 million. The most significant thing to note here is really that working capital is negative through the first three quarters of the year, and although we're pleased with our working capital performance so far this year, we did take a bit of a step back in the third quarter from the second quarter as our working capital turns went from 5.1 to 4.6, as anticipated. But as we look forward to the fourth quarter, we have detailed plans and forecasts in place that we believe we will actually achieve close to 5 or 5.2 working capital turns by the end of the year, which is what our plan was back in March, as we began to put the two companies together. So the bulk of that $183 million of negative that you're seeing year-to-date, and possibly all of it, will likely disappear as a result of that significant working capital performance that we expect in the fourth quarter. And keep in mind, both companies have a history of having strong working capital performances in the fourth quarter, due to the seasonality of nature of both businesses, as well as timing of certain events that happen in third quarter versus fourth quarter.

The last thing I'll mention on this page is, looking at the bottom line or the free cash flow, you can see that even with that negative, we achieved $234 million of free cash flow in the third quarter and now are very close to $500 million of free cash flow year-to-date. And looking back at historical trends of the Company on a combined basis, both companies tend to achieve about two thirds of their free cash flow for the year by the end of September. And if you take that analytical view, that would mean we would achieve close to $725 million to $750 million of free cash flow, hence why we believe we're going to exceed $700 million of free cash flow for the year.

Moving on to the Balance Sheet. Again, this is a comparison prior year related to third quarter of 2009 as Stanley only. So the third quarter of 2010 includes the merged Company, and obviously the variances are being driven by the impact of the two companies being put together. A couple things that I want to point out here though. Obviously our cash balances are significant, $1.6 billion worldwide. All of that is currently overseas, and we continue to evaluate potential options, as we go forward, of bringing some of that cash home through different means. And it will be something that we will be finalizing in the fourth quarter of this year. Debt is at $3.4 billion, and it's up slightly from the second quarter as we did issue a set of bonds, 30 year bonds, at 5.2% back in September. We're very pleased with that issuance and at that rate, and its ability for us to spread out some of our maturities as we go forward. And then last, but certainly not least on this page, is capital ratios. We're at about 33% debt-to-capital and we adjust for our hybrid instruments for around 29% to 30%, and so that's a continued improvement of where we started back in the first quarter, where those ratios were respectively 35% and 31%. So we feel like we're on track for our objectives around debt by the end of the year.

So I want to spend a little time on the next page, which has to do with our outlook around some of our segments, and primarily focus on revenue. I want to start with the CDIY segment. We are anticipating a low single digit growth rate on a pro forma basis for the fourth quarter, but there's a couple things to clarify related to that. We mentioned in the press release there were tougher prior year comparisons, and to be specific what that is, when you compare fourth quarter of 2010 to the fourth quarter of 2009 for this business, Black & Decker last year had 14 weeks of activity in that number. And it's just the timing of their fiscal calendar compared to what we will have this year, which will be 13 weeks. That impact actually has a drag of about four points on this CDIY growth number. So, as an example, if the business was going to grow 2% and our current forecast on an apples-to-apples basis, it's actually growing 6%. So I think it's important that folks understand what we mean by a tougher prior year comparison in this particular case, and I'll also give you a sense of the magnitude of that for the total Company on the next page.

Jim talked about the successful 12-volt rollout and I'm not going to harp on that, but clearly that is a significant impact and it's helping to offset some of that timing issues that I described with those headwinds. Sequentially, the operating profit will see pressure in the fourth quarter as we will have increased promotions, negative currency effect as well as lower absorption. So we will see a bit of a sequential decline from third to fourth quarter in CDIY as a result of those items. We continue to see really nice growth in Latin America and Asia, and expect that to continue in the fourth quarter, although we will likely see a little bit of a weaker performance in the US and Europe, primarily because of the comparison issue that I described earlier.

Moving on to Security. As Jim mentioned, Security had a nice quarter, and on the electronic security side of the business as well as HHI. Mechanical access continues to see some pressure related to the commercial construction markets, as well as that inventory correction item that Jim mentioned related to the third quarter. We think we will see a slight revenue decline in the fourth quarter for the overall segment on a pro forma basis, and that's indicative of factors I just mentioned.

The good news is that CSS order flow continues to be strong and solid,and that's really being driven by activity in the national accounts in North America. So we're pleased there appears to be a positive trend and acceleration occurring in that business. We have seen an uptick in delayed and abandoned construction projects in that commercial construction sector of the mechanical access business, so that's really creating that pressure that I described. And then of course, the residential hardware business is historically weak in the fourth quarter, due to seasonality, but we are seeing a bit of an offset from the continued success of the Smart Key products, as well as the Baldwin Prestige product lines. So we do expect a little bit of growth from that business in the fourth quarter, but not of the magnitude we saw in previous quarters.

Industrial, mid- single digit pro forma organic growth rates, so we are continuing to see nice growth in this particular area. We don't expect to see the growth of the magnitude we saw in the third and fourth quarter,which was 20% to 30% range, as a result of a couple things. One, we're definitely seeing -- we believe that the customer restocking has ended. We saw a little bit of that occur in the third quarter, as Jim described. We don't expect that to continue into the fourth quarter. Also, we do see lower global automotive production forecasts around the world, so as a result, their engineered fastening business will likely not see the type of growth rates and leverage they saw in the third quarter. So that will be a bit of an offsetting pressure to some of the positives we're seeing in North America industrial distribution business that continues to be strong, and we expect that to be strong in the fourth quarter. And then the mobile distribution and industrial storage business will show modest growth as well. We think we'll also see strengthen our infrastructure business, as we expect to see growth in particular emerging markets, as you see here on the page.

So to summarize the guidance on page 17, this is our updated outlook for 2010. Again, it excludes one-time charges related to the merger with BDK, as well as the acquisition of SSDS, or ADT France, and CRC Evans. And just as a reminder to folks, those charges are the following as far as guidance for the year. For restructuring related, we still believe it will be $245 million to $295 million, probably closer to the high end of the range, as a result of what John described with higher synergies being achieved in 2010. The one-time SG&A and other costs will approximate $135 million, so that's up slightly from July as a result of activity there associated with ADT France and CRC Evans in particular. And then the inventory step up, which is an accounting charge, will be about $175 million, $170 million related to BDK and $5 million related to CRC.

So our guidance increase has been to $3.60 to $3.70. So we've increased that from $3.35 to a high end of $3.55 from back in July. And what are the factors that are really driving that? Well first of all, the second half organic sales growth we believe is now going to approximate 5%, where we said 4% to 5% back in July. We saw 8% pro forma growth in the third quarter of 2010. Clearly that implies a slower growth in the fourth quarter to get to a 5%, and it implies about 2%, but that extra week phenomenon or those tougher prior year comps that I described is really causing about a three point drag in that comparison. So if you made an apples-to-apples comparison, it would be about a 5% growth number year-over-year.

Gross margins, we will see a sequential decline of probably 50-80 basis points from the third quarter. That's very much in line with historical trends for both businesses, as we tend to see lower absorption in the fourth quarter versus the third quarter, and this year we will actually see a little bit of currency pressure -- additional currency pressure as well. So there's a little bit of pressure there on the gross margin line, and then also we'll also see some additional promotional costs within SG&A that will cause some pressure on the operating margin line.

The good news, as John mentioned, cost synergy realization is up to $125 million in 2010. As we mentioned in July, we achieved $30 million in the second quarter. John mentioned $45 million in the third quarter. Ad so that would mean we're going to achieve about $50 million in the fourth quarter to get to $125 million for the year.

Other things that are not on the page related to guidance. There are no changes but we've communicated in the past, is the two acquisitions of SSDS and CRC Evans. We don't expect any major changes to that guidance that we've provided previously around EPS, as well as the BDK intangible amortization is still expected to be $55 million. The tax rate is in the range of 26% to 27% for the full year, so that implies a lower tax rate for the fourth quarter, because we're at almost 28% through the first three quarters of this year.

Other restructuring, $30 million to $40 million, which means we'll have a rather large charge in the fourth quarter of anywhere from $12 million to $17 million, depending on certain activities and timing of events. And then commodity inflation continues to be a pressure for us in the back half of the year compared to the prior year. As we look at the commodity prices versus the second half of 2009 we're still seeing 20% to 0% increases. Those are all items consistent with what we've said in the past, and there's no significant changes there.

The net effect of this on a cash basis, cash EPS is now expected to be $4.34 up to $4.44 for 2010, and that excludes approximately $175 million of amortization. The last thing I'll mention on this page is just to reassure firm that the free cash flow for 2010 is expected to exceed $700 million as I described earlier.

So to summarize the presentation portion of this call, we definitely feel like the third quarter is an illustration of how our integration continues to be proficient and effective. The cost synergies for 2010 have been raised to $125 million, as we have indicated, and we're very pleased to see earlier than expected profitability with our French electronic security business, SSDS. The 2011 forecasted cost synergies to drive 10% to 15% profit growth above and beyond core business growth, and organic growth across the majority of the business, driven by the footprint of the emerging markets and all of the new product innovation that Jim described. The second quarter restocking activity has moderated as we expected in the third quarter and we don't expect that to continue into the fourth quarter. And as I mentioned, free cash flow guidance has been raised and we expect significant fourth quarter 2010 working capital benefits.

With that I'm going to pass the call back to Kate White so she can clarify a few items related to outstanding shares and EPS projections for the year.

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Hello, everybody.

We're going to flip to the slide that's actually included in the appendix. We know we have a lot of moving parts based on the merger that we are going through this year, so we just wanted to clearly lay out the shares outstanding and the role they play for each quarter and the EPS that attaches to that. Because if you try to add up Q1, Q2, and Q3, and then the EPS estimate for Q4, it obviously won't equal the range, because the range is based off the average annual share count. If you have any questions about this, I'm happy to take them off line.

With that, we'll turn it over to Q-and-A. I will reiterate, we do have a lot of questions in the queue. Please stick to one question and one follow-up. If you need anything outside of that, you know where to reach me.

Stephanie, I'll turn it to you.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions).

Your first question comes from Dennis McGill. Please go ahead.

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**Dennis McGill** - *McGill, Zelman & Associates - Analyst*

Good morning, guys. Thanks for taking my question.

Just the first one, around corporate expense. That's been a number that's a little hard for us to pin down on a quarterly basis. Can you just talk about how to think about that for, not only the fourth quarter, but on a sustainable basis, once you have all of the cost cuts and synergies in place?

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Dennis, as we said for 2010, we expected it to be about $100 million for the year, for the total corporate overhead. We haven't said anything yet in regards to 2011, but as soon as we have that number I will let you know.

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**Dennis McGill** - *McGill, Zelman & Associates - Analyst*

Hopefully this isn't my follow-up, but there's $110 million or so thus far in the first three quarters?

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Okay. Well, we'll look at what you're considering in that bucket off line, and I'm sure we can make it make sense. And no, that's not your follow-up.

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**Dennis McGill** - *McGill, Zelman & Associates - Analyst*

Okay. Appreciate it.

The second one just has to do with the ADT acquisition. Sounds like with the cost savings thus far you guys could get to maybe a $25 million type operating profit by the end of next year, and having only paid $5 million or $10 million for it. Can you just talk about how that compares to maybe your expectations, and what kind of cash investments you've had to make to get that to such attractive operating margins so quickly?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Yes, we can -- we'll give you ballpark. Simply said, it's moving towards where we thought it could be. Remember, when we made the acquisition we talked about how accretive it would be in year two or three. It looks like we are going to get there sooner. But what we also said when we made the acquisition, and we're pretty much on track despite our relatively low purchase price, we have upwards of $50 million to spend on restructuring of that business. But when the add the purchase price in the restructuring together and our capital base, as Jim talked about in the quarter when we made this acquisition, it's still -- it has the potential to be an extraordinarily high ROCE acquisition. Obviously it's going to be accretive, because we've taken a large negative and turned it into a modest and we think much larger positive going forward, and the capital base is still going to be extraordinarily low relative to its revenues and profitability.

I think your estimate of profitability ,we would like to get there. I think that's fairly aggressive and fairly early. That would imply very high teens, low 20s operating margins. We didn't commit or undertake to get there quite that quickly, but that's the direction we're going and sooner rather than later it will be line average with our electronic security business.

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**Dennis McGill** - *McGill, Zelman & Associates - Analyst*

Okay, thank you very much.

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Next question Stephanie?

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**Operator**

Your next question comes from Michael Rehaut. Please go ahead.

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Mike, are you there?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Mike, are you on mute?

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**Michael Rehaut** - *JPMorgan - Analyst*

Can you hear me now?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Yes.

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**Michael Rehaut** - *JPMorgan - Analyst*

There we go. Sorry. Headset difficulties. Thanks for taking the question.

First, I was wondering if you could just talk about the top line with I think better than expected perhaps in Q3 and explaining some of the tough comp elements of Q4. How does that, and I know you're intentionally not talking about 2011 guidance at this point, but with the success of some of the different new products, does this get you a little bit more excited about 2011, in terms of what you can do above and beyond let's say core industry growth, or given that some of the products like particularly in CDIY where there has been a little bit of catch up there, you think things might even out in terms of some of that incremental contribution?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Yes, I'll try, Mike.

First of all, we have a stated objective in our CDIY business to grow the business at 2 X the rate of the market. Two things going on. We've historically done that for the last four or five years in the legacy Stanley hand tools business. I think it's clear that the worldwide power tools and accessory business, due to the late adoption of lithium ion, lost a little bit of share.

I think Jim has pointed out, and Jeff Ansell's team is doing a great job getting these new products into the market, where we're catching up in a very big hurry and the market is accepting it well. I'd say there's no reason why we can't regain the three to five share points lost over the last three years. And just in fact, if we're able to do that, we'll be growing the power tools side of the business at 2 X the rate of the market too. So that's not a volume projection going forward. Some of these products have only been in the marketplace less than three months. There will be others the first half of next year. But yes, we are optimistic with our new product pipeline, with the hand tool and power tool team that are coming together to form a very, very powerful business unit, good customer reaction to what we've shown them so far. So we are cautiously optimistic, but we're not out there with any estimates yet because we don't have enough data to base it on. Our objective remains to grow faster than the market.

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**Jim Loree** - *Stanley Black & Decker, Inc. - EVP & COO*

And I would just add to that. If you think about it from a long term objectives perspective we have stated long term organic growth objectives of 4% to 5%, which we think will be greater than the GDP, global GDP, during the upcoming years. And how do we get there? Obviously the momentum that derives from coming out of this hopefully trough part of the cycle, with the additive benefit of the new benefits and with the additive benefit of whatever revenue synergies we're able to achieve, and should enable us for years to come to achieve that better than GDP growth for the organic growth for the Company. But then the question becomes as we get a couple years into this what happens, and that's why we have these five growth platforms. That's why we -- when you look at what we're acquiring in these growth platforms we're looking for higher growth, higher margin, higher organic growth, higher margin areas, so that we can reduce our dependency on slower growth markets. So we have a, -- you'll see a portfolio shift, we think, over the coming years where security, mechanical security, electronic security, engineered fastening, healthcare, infrastructure really do grow as important platforms in the business, and take a much larger share of the revenue as we head into the next down cycle and years from now, on the tool side.

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**Michael Rehaut** - *JPMorgan - Analyst*

Okay. Thanks for that.

I guess my follow-up is more focusing on CRC Evans and related acquisitions or, not related to CRC, but just more broadly speaking, your acquisition efforts. When you held the call I guess a couple months ago, you paid 7.5 times EBITDA roughly and you expected modest accretion in year one, $0.10 by year three. What are you seeing right now? Well first off, I guess do you still expect that type of accretion, given now that you have a few months under your belt? And two, in terms of multiples out there and what prices are, I mean do you see your pipeline, because you mentioned that you're kind of revving up a pipeline for healthcare, acquisition is growing, how do you see multiples and how do you see if that pipeline is growing more broadly across your other platforms as well?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Yes, first, the two part question.

First, yes we see that much accretion, based on three months of owning CRC. We've inherited an extraordinarily capable management team, and we're inserting two or three functional Stanley leaders into the business as well. It's off to a very good start and we remain enthusiastic about the business, about its ability to grow organically, about its ability to add meaningful value both on an ROC basis and an accretion basis.

With the second one, we're looking at many different platforms. It won't surprise you that multiples for some of the healthcare opportunities that Jim referred to are higher than six to eight. In the tool space, that's pretty much what they are. For five years we answered questions in Security, when we were trading at six to seven, how can you make acquisitions at 10 to 11 times EBITDA and have it not destroy value. The answer is simply 10 to 11 times EBITDA for higher growth, higher margin businesses. That's what the market requires and within two or three years they are back to four to six, which is what we've done with HSM, what we've done with Sonitrol, what we've done with other businesses. The same will apply outside industrial tools, going forward.

To the extent we pay a higher multiple than the multiple at which we're trading, it will be with the understanding and the plan between synergies and growth to have that multiple be well within our range, and as a consequence, have it create value for our shareholders. It's probably worth mentioning that the entire management team at Stanley Black & Decker's long term incentive is based equally on earnings growth and return on capital employed, so the acquisition market is heating up. It's more competitive, more sponsors are showing up than showed up even six months ago to compete for attractive properties. That being said it's not a lot of change from what we've been dealing with for the last six years. We'll maintain our financial discipline. We'll maintain our both strategic review and financial hurdle rates, and look at each acquisition opportunity on its own merits.

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Stephanie, next question?

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**Operator**

Your next question comes from Ken Zener. Please go ahead.

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**Ken Zener** - *Macquarie Research Equities - Analyst*

Good morning.

I am interested kind of now that you've had the business, legacy Black & Decker, how the differences are versus your initial expectations regarding, I know you'd talked about perhaps BDK, they used price to gain share which didn't work as well as your ability to pass through commodity costs on the Stanley hand tool business, perhaps more aggressively than Black & Decker did in the past. Can you give your initial assessments in how you're handling cost inflations?

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**Jim Loree** - *Stanley Black & Decker, Inc. - EVP & COO*

Well anybody with legacy Black & Decker management team for giving away some price when they didn't have the products to merit price, I'm just speaking in particular of the cordless lithium ion share loss that occurred over the past few years to Hitachi and Nikita and Bosch, and so forth. But it was basically a defensive maneuver to protect whatever share they could while they scrambled to redesign the product lines, which you're now seeing the manifestation of. So it's tough to recover a lot of price when you don't have the products to back it up.

So I'd suggest what we're doing now in the power tool business is that we are gradually introducing these new families of cordless products to recapture the market share, and we will do what we need to do to reestablish ourselves at the market share position, where we think is optimal, given the various facts and circumstances in the marketplace. So that said, I think that if I were to be completely objective I'd think that pricing is probably more of a core competency on a functional basis at the Stanley legacy and many of the Stanley legacy businesses, and we have some folks in our pricing center of excellence already working with the legacy Black & Decker folks to help implement that within their system. And I'd say the same is true for the granularity of the analysis related to operations, costs in particular, related to procurement, which they didn't do on a centralized basis and legacy Stanley did, which meant not only do we have perhaps more opportunity to leverage the supply base over a larger base, but also have more timely information that could be actually cycled into the pricing analysis and strategy process. And I think that is definitely something that Don Allan and his team are going to be working diligently on over the coming quarters, to get at the same level of the legacy Stanley was at.

That said, I'd say one of the most positive surprises of all here, and we didn't have a chance to see these families of new products that have been developed by the legacy Black & Decker folks in power tools. We had to take it on faith because we couldn't get access to it during the due diligence process for anti-trust reasons. We had to take it on faith these products would be everything they indicated that they would be from an attractiveness perspective, and we couldn't be happier. We couldn't be happier with the team that developed these products. or the products themselves, and the future that actually portends for the power tool business.

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**Ken Zener** - *Macquarie Research Equities - Analyst*

Appreciate it.

I guess just one follow-up relative to that product launch. The lithium ion headwind for marketing in this quarter, is that on the order of 50 basis points just, since you highlighted it, could you perhaps give a little more quantification? Thank you very much.

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**Jim Loree** - *Stanley Black & Decker, Inc. - EVP & COO*

The lithium ion headwind in terms of the sequential operating margin rate?

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**Ken Zener** - *Macquarie Research Equities - Analyst*

Correct.

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**Jim Loree** - *Stanley Black & Decker, Inc. - EVP & COO*

You're right about it in the right zip code.

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**Ken Zener** - *Macquarie Research Equities - Analyst*

Thank you. Have a good day.

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

You too.

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**Operator**

Your next question comes from Jim Lucas. Please go ahead.

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**Jim Lucas** - *Janney Capital Markets - Analyst*

Thanks a lot. Good morning, all.

First question on, more on the housekeeping side. Back on the working capita,l which was roughly $2.1 billion at the end of the quarter, could you break out how much was BDK versus the newer acquisition since you did differentiate that in the prepared remarks?

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**Jim Loree** - *Stanley Black & Decker, Inc. - EVP & COO*

Versus the other acquisitions?

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**Jim Lucas** - *Janney Capital Markets - Analyst*

Yes.

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**Jim Loree** - *Stanley Black & Decker, Inc. - EVP & COO*

Yes. It was almost all Black & Decker, because the French security business $100 million EUR French security business isn't going to have a lot of working capital and $250 million of CRC revenue, they are going to have maybe four turns, something like that. So you can kind of maybe $60 million or $70 million of inventory and other working capital, so probably -- well, not probably -- the vast preponderance of the working capital that is non-Stanley related would be Black & Decker.

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**Jim Lucas** - *Janney Capital Markets - Analyst*

Okay, thank you on that.

And then, wanted to follow-up on the topic of acquisitions because with the integration progressing nicely, cash flow accelerating, healthy balance sheet,, you've now done CRC Evans to establish the infrastructure platform, you alluded to the healthcare pipeline growing, but more so than valuations, can you talk about how you're looking at acquisitions, both from deal sizes as to prioritization of what areas you want to invest in?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Yes. I think look at the new playbook. It's the same as the old playbook.

In terms of deal sizes, for the next six to 12 months, we're not looking at deals well above $500 million, unless it were to be a game changing opportunity and timing over which we have no control, because, as Don pointed out, despite we'll have $700 million in cash flow, if we look at this year, we're spending close to $400 million to achieve the synergies,we're paying a dividend, that pretty much takes care of cash flow without changing the structure of our balance sheet.

Going forward, if we look at $700 million plus, the dividend repay a couple hundred million in debt to be solidly where the rating agencies need us to be, we still have $400 million to $500 million to spend. That should give you a flavor, Jim, either cumulatively or with one large deal without issuing equity, the side we're looking at.

In terms of the platforms, again it's the same. Jim alluded to it. We've taken our portfolio back to about 2006 levels, in terms of the ability to which is influence are impacted by the North American residential construction and CDIY markets. That's not bad but ultimately, we're going to discriminate in favor of healthcare, infrastructure, engineered fastening, security, things that we feel we have a right to succeed. The multiples will be a little higher, but as I responded Mike Rehaut's question, we'll get those multiples down over time, but we're going to discriminate in favor of higher growth, higher margin businesses going forward to get our portfolio back towards roughly a third, a third, a third, which is not a concrete target. But we like the fact that being -- look five years out, a $15 billion company with $5 billion in CDIY, $5 billion in Security and $5 billion in Industrial. That gives us a lot of levers to pull as a management team when and if the macroeconomic situation changes dramatically.

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**Jim Lucas** - *Janney Capital Markets - Analyst*

And geographically, is there any bias on the acquisition side?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

It's going to vary by business, Jim. Very fair question. We probably need to spend more time off-line, which Kate or I would be happy to do.

On the one hand, there are a lot of opportunities in emerging markets but it's going to vary by business. Certainly security, small roll ups are all that's left in North America, but there are tremendous opportunities both in Europe and in Asia. As we look at the industrial tool front, I think there are opportunities around the globe.

In CDIY, we'll focus on organic growth in mid single digit growth in the established markets off a high base, and then strong organic growth in emerging markets like we experienced in the third quarter. It's going to vary a lot by business, but there are tremendous opportunities outside the US, particularly in Security.

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Thanks, Jim. Next question Stephanie?

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**Operator**

Your next question comes from Eric Bosshard. Please go ahead.

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**Eric Bosshard** - *Cleveland Research Company - Analyst*

Two revenue questions.

The first one, in Security you talked about the order book building and I think,Jim, you gave some numbers on where incoming orders are. Can you talk about when and how that will translate into reported revenue growth from that business as we move through Q4 and into 2011?

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**Don Allan** - *Stanley Black & Decker, Inc. - VP & CFO*

Eric, it's Don.

I did mention that we are seeing a stronger order book in electronics security, without a doubt. We would expect that, based on the orders that we've received, that it's going to show a top line improvement in the fourth quarter and into the first quarter as well of next year ,and maybe a portion of the second quarter. So we're looking at a positive performance likely in that business as a result of the orders we're seeing into probably about two quarters out.

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**Eric Bosshard** - *Cleveland Research Company - Analyst*

And secondly, you talked about in the release and a little bit about revenue synergy opportunities and, short of quantifying that which sounds like you're working towards, can you at least bucket this. We've heard you talk about the opportunity in Latin America, but it seems like you've discovered more opportunity. I'm just wondering if you can frame a bit tighter where you're seeing revenue synergy opportunities as you put the businesses together?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

I think, Eric, we've identified as much as we can or are able to do. Certainly, the geographies, the geographic expansion are the biggest and most obvious, and not just in Latin America, but Latin America only because legacy Black & Decker had such a strong base, $400 plus million of business, established manufacturing capability in Brazil, and a very well established distribution network in all of South America which far exceeded Stanley's capabilities. That's first and foremost, most obvious. But the same kind of cross selling opportunities exist in all emerging markets.

Remember we focused an executive and an entire team on what we call emerging markets and Asia Pacific group, and we have Jeff Chen focusing on Mainland China, Ben [Sihoda] from Black & Decker focusing on the other markets. So first and foremost in the geographies, beyond that they are going to take a little longer to incubate, and that's really all we'll say at this point. Everything else we've said at investor presentations, and we'll give you some more granularity on that in January when we wrap the year up and decide, quite frankly, how much cost synergy excess, if you will, we have to fund some of these programs. Obviously the sooner we're able to fund them without detracting from margins, the sooner we are going to achieve them.

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**Eric Bosshard** - *Cleveland Research Company - Analyst*

Thank you.

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**Operator**

Your next question comes from Dan Oppenheim. Please go ahead.

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**Dan Oppenheim** - *Credit Suisse - Analyst*

Thanks very much.

Was wondering if you can talk about just the CDIY environment, you talked about the fourth quarter being difficult to comp there. What thoughts do you have in terms of any risk of destocking, but also as you look beyond the fourth quarter, how do you think about the product introductions versus the overall underlying demand and weakness there, and the ability to sort of keep revenue growth going?

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**Jim Loree** - *Stanley Black & Decker, Inc. - EVP & COO*

Okay, well I would say the weeks on hand, first of all, we have one major retailer that took about half a billion dollars of inventory out in their system in the last 90-120 days, and that may or may not continue into the fourth quarter, probably will continue to some extent. The rest of the field, I'd say the inventories on the average the for big retailers with our products, now we only have legacy Stanley at this point in time. We're still trying to get the circuits hooked up to get all of the weeks on hand, and so forth, point-of-sale for the whole system. But the weeks on hand with the legacy Stanley, which I think will be a good proxy for CDIY, are right around 12, which is a couple of weeks lower than it was in 2005. For those of us that remember back that far, 2005 was the year that the large retailers, three of them shut off ordering in the middle of December and so we don't think that that scenario is likely, but we see a scenario where point-of-sale is not robust at most of these customers. It's not terrible. It's just kind of bumping along flattish kind of territory, and our invoice sales was very consistent from a volume point of view, from a unit point of view, with that in the legacy Stanley business in the third quarter. So as we would step back from it I'd say we would probably see caution at the winds in the retailers, and part of our outlook reflects that, so we've kind of baked in the environment in a very reasonable way here.

As we look forward into 2011, clearly the product introductions that are occurring as we speak will have several quarters of opportunity to manifest themselves in sales gains, and we'll have some additional product introductions coming in several areas including power tools, as we get into next year so that will help us. And I think, on balance, the product introductions will provide a nice buffer against a -- if we continue to have a sluggish environment. We aren't suggesting that we will, but it's too early for us to call what the environment for 2011 will be and that's why we'll have much more granularity around the guidance in the fourth quarter earnings release in January.

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**Dan Oppenheim** - *Credit Suisse - Analyst*

Thanks very much.

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**Operator**

Your next question comes from Sam Darkatsh. Please go ahead.

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**Sam Darkatsh** - *Raymond James - Analyst*

Good morning John, Jim, Don, how are you?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Sam.

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**Sam Darkatsh** - *Raymond James - Analyst*

The $350 million plus of synergies from Black & Decker, are you still looking at that as an over three year time horizon to achieve that, and I think you've previously had us look at that as over three years on a straight line basis. Should we look at that as a more of a front loaded opportunity now for you, as opposed to straight line?

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**Don Allan** - *Stanley Black & Decker, Inc. - VP & CFO*

Sam, it's Don.

I would say that obviously we're ahead of schedule, based on what we discussed on the presentation part of the call. We still are in an evaluation phase as we mentioned and we'll certainly be giving a lot more detail in the January earnings call, but I would say that yes, it's ahead of pace and that probably means that we're going to see higher numbers in the first few years versus the guidance we previously gave. But we just aren't ready to give you specifics at this stage.

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**Sam Darkatsh** - *Raymond James - Analyst*

From a mile post standpoint, what would have to be physically done on your behalf in say year two or three, since it would appear most of your synergy opportunities are really kind of soft targets like back office and purchasing and DC consolidation that one would think would already be pretty much done?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Well on the contrary. Go ahead, Don.

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**Don Allan** - *Stanley Black & Decker, Inc. - VP & CFO*

Actually, the stuff that's left to be done is really what I call the longer term more difficult things, which require system implementations, two systems being put together like CDIY, hand tools and power tools being put on the same platform that allows you to consolidate your back office functions. And then we have some significant manufacturing and distribution projects that will be getting completed in 2011 and some into 2012. In particular the European ones, which is a fair amount of our synergies in those areas, take a much longer amount of time not only due to what I just described, but also due to the process. The administrative process that you have to go through with various countries over there, in particular France, that we've gone through in several occasions with various integrations. But I would say what we're working on now is the things that you described, which is those longer term items that tend to be a lot more difficult to achieve, not in a sense of executing it but more in a sense of time.

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**Sam Darkatsh** - *Raymond James - Analyst*

Okay, thank you.

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**Operator**

Your next question comes from Nicole DeBlase. Please go ahead.

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**Nicole DeBlase** - *Deutsche Bank - Analyst*

Yes, good morning, guys, and congratulations on a nice quarter.

A question on inventories. You guys mentioned that within industrial you think that most of the restocking has completed. Does this mean inventories are in line with normal levels in that business, and maybe you could talk about the level of inventories in the CDIY business as well?

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**Jim Loree** - *Stanley Black & Decker, Inc. - EVP & COO*

Yes, it basically does mean that we think inventories are in line at the distributer level. The big unknown with industrial, because we don't get great data, with the customers for the most part are relatively small, the distributors, and we don't get the same granularity of data that we get with our CDIY business in the US, for example. So a lot of this, a lot of our conclusions have to come from discussing with sales folks and sales management what their observations are in the marketplace, and we don't have great visibility into, say, the tool cribs where things are really kind of stocked and restocked, but we do have reasonable qualitative visibility into the distribution channel. And we think what occurred during the destocking phase was probably a really significant destocking throughout the whole system from the distributors to the dealers to the tool crib folks to secretaries hoarding office supplies, because nobody knew if they were ever going to be able to order anymore. So now I think what's happening is that clearly, industrial production was not up 20% in our world, and we think about a third of it was restocking. We think another third of it was share gain, and so the last third would have been kind of market growth, if you will. And that seems to be a little bit higher than the production levels, so maybe there's restocking going on within the factories that buy these kinds of industrial tools, but at least at the distributor level we think its run its course.

Now for the CDIY, I pretty much covered everything that I can say about inventories at this point in time, which is that they are averaging about 12 weeks at our largest US customers and we don't anticipate any earth shattering inventory corrections, but they are very cautious with respect to their inventory level. And I think they will be playing wait and see here with the upcoming season, and if the season doesn't seem to be playing out in the late November, early December time frame there's a chance there could be more inventory correction than normal in this particular year, even though their inventories are in pretty good shape. They are about two weeks, on the average, lower than in 2005 when they essentially took two weeks out of December, all three of the biggest retailers in the country. So as I said earlier, our guidance reflects some conservatism and caution with respect to the tone of the CDIY market, and we shall see where things kind of play out as the season goes here.

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**Nicole DeBlase** - *Deutsche Bank - Analyst*

Thank you.

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Next question. This is actually our last question, Stephanie.

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**Operator**

Your last question comes from Peter Lisnic. Please go ahead.

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**Josh Chan** - *Robert W. Baird & Co. - Analyst*

Good morning. This is Josh Chan filling in for Pete.

Staying on the CDIY business, I was just wondering if you could talk a little bit about the pricing environment and how soon or do you expect to close that raw materials gap?

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Well, the pricing environment is no more or less competitive, Josh, than its been for the last 10 years. The way we maintain pricing of course, as Jim alluded, to our pricing center of excellence sees the raw materials increases coming, and we've historically done a very good job. We've recovered about 75% to 85% of raw materials inflation over time. The rest we have to get with productivity to maintain margins, which we've been able to do.

The second way to insure that we maintain margins, in terms of price, is to do what Jim alluded to on the first page of his piece of the presentation. Specifically, by introducing new and improved products at higher price points, and allowing the previous products to water fall down, if necessary, to a slightly lower price point allows us to maintain margins. We, of course, have to add features and benefits to do that, because simply asking for more price for an existing product, even in the face of materials inflation, is very difficult for our customers to accept because they are trying to provide obviously the lowest prices possible to their end-users. So the pricing environment is no different than it's been for the last five years and our modus operandi, or the way we're dealing with it, is essentially no different, at least from the legacy Stanley side. Add features and benefits that you can get paid for, command a higher price, having the leading brands in the category gives you the right, as well as the obligation, to be the price leader. And that's our strategy that we will continue to employ in the months to come, should materials increase even more than we're anticipating.

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**Josh Chan** - *Robert W. Baird & Co. - Analyst*

Okay, and then the follow-up question is on the CDIY margin, 13.2% for the quarter. What is the break out between the legacy Stanley business and Black & Decker?

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Black & Decker is about 13% and Stanley is about 15%.

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**Josh Chan** - *Robert W. Baird & Co. - Analyst*

Great. Thanks for your time and congrats on the quarter.

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**John Lundgren** - *Stanley Black & Decker, Inc. - President & CEO*

Thank you.

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**Kate White** - *Stanley Black & Decker, Inc. - IR*

Well that concludes our call for the day. If you need to reach me for questions, all of my contact information is on the internet. Phone number 860-827-3833, and thanks again for joining us today.

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**Operator**

Thank you. You may now disconnect.