

STANLEY WORKS
Form 10-Q
October 27, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006.

OR

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

For the transition period from [] to []

Commission File Number 1-5224

THE STANLEY WORKS

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CONNECTICUT
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

06-0548860
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

1000 STANLEY DRIVE
NEW BRITAIN, CONNECTICUT
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

06053
(ZIP CODE)

(860) 225-5111

(REGISTRANT'S TELEPHONE NUMBER)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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.

Edgar Filing: STANLEY WORKS - Form 10-Q

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 Exchange Act).

Yes No

81,304,358 shares of the registrant's common stock were outstanding as of October 10, 2006

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE STANLEY WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND OCTOBER 1, 2005

(Unaudited, Millions of Dollars, Except Per Share Amounts)

	THIRD QUARTER		YEAR TO DATE	
	2006	2005	2006	2005
NET SALES	\$ 1,012.7	\$ 834.9	\$ 2,999.3	\$ 2,445.9
COSTS AND EXPENSES				
Cost of sales	\$ 634.9	\$ 530.6	\$ 1,912.9	\$ 1,553.9
Selling, general and administrative	229.1	175.2	710.4	545.7
Provision for doubtful accounts	2.8	3.9	4.9	6.2
Interest expense	17.6	9.4	52.8	27.6
Interest income	(1.1)	(1.3)	(3.3)	(3.7)
Other, net	15.4	12.6	45.6	34.1
Restructuring charges	0.9	2.3	10.0	3.9
	\$ 899.6	\$ 732.7	\$ 2,733.3	\$ 2,167.7
Earnings from continuing operations before income taxes	113.1	102.2	266.0	278.2
Income taxes	22.9	25.8	62.3	70.7
Net earnings from continuing operations	\$ 90.2	\$ 76.4	\$ 203.7	\$ 207.5
Earnings (loss) from discontinued operations (including loss on disposal of \$1.5 million in 2006) before income taxes	0.5	0.4	(1.0)	2.6
Income taxes (benefits) on discontinued operations	0.2	(0.1)	(0.2)	0.7
Net earnings (loss) from discontinued operations	\$ 0.3	\$ 0.5	\$ (0.8)	\$ 1.9
NET EARNINGS	\$ 90.5	\$ 76.9	\$ 202.9	\$ 209.4
NET EARNINGS (LOSS) PER SHARE OF COMMON STOCK				
Basic:				
Continuing operations	\$ 1.11	\$ 0.92	\$ 2.49	\$ 2.50
Discontinued operations	—	—	(0.01)	0.02
Total basic earnings per common share	\$ 1.11	\$ 0.92	\$ 2.48	\$ 2.52

Diluted:				
Continuing operations	\$ 1.09	\$ 0.89	\$ 2.43	\$ 2.43
Discontinued operations	—	—	(0.01)	0.02
Total diluted earnings per common share	\$ 1.09	\$ 0.90	\$ 2.43	\$ 2.46
DIVIDENDS PER SHARE OF COMMON STOCK	\$ 0.30	\$ 0.29	\$ 0.88	\$ 0.85
Average shares outstanding (in thousands):				
Basic	81,206	83,566	81,853	83,160
Diluted	82,867	85,483	83,669	85,242

See notes to condensed consolidated financial statements.

1

THE STANLEY WORKS AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2006 AND DECEMBER 31, 2005
(Unaudited, Millions of Dollars)

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 241.3	\$ 657.8
Accounts and notes receivable	763.8	609.6
Inventories	619.2	460.7
Other current assets	98.7	84.2
Assets held for sale	2.5	13.3
Total current assets	1,725.5	1,825.6
Property, plant and equipment	1,552.8	1,297.0
Less: accumulated depreciation	1,054.8	829.9
	498.0	467.1
Goodwill	1,083.6	740.9
Trademarks	306.0	119.2
Customer relationships	161.7	157.6
Other intangible assets	60.9	42.7
Other assets	202.2	192.0
Total assets	\$ 4,037.9	\$ 3,545.1
LIABILITIES AND SHAREOWNERS' EQUITY		
Current liabilities		
Short-term borrowings	\$ 241.0	\$ 148.1
Current maturities of long-term debt	81.4	22.1
Accounts payable	434.8	327.7
Accrued expenses	507.8	374.3
Liabilities held for sale	—	3.1
Total current liabilities	1,265.0	875.3

Edgar Filing: STANLEY WORKS - Form 10-Q

Long-term debt	823.3	895.3
Other liabilities	448.5	329.6
Commitments and contingencies (Note H)		
Shareowners' equity		
Common stock, par value \$2.50 per share	237.7	237.7
Retained earnings	1,816.2	1,657.2
Accumulated other comprehensive loss	(46.4)	(91.3)
ESOP	(102.7)	(108.2)
	1,904.8	1,695.4
Less: cost of common stock in treasury	403.7	250.5
Total shareowners' equity	1,501.1	1,444.9
Total liabilities and shareowners' equity	\$ 4,037.9	\$ 3,545.1

See notes to condensed consolidated financial statements.

2

THE STANLEY WORKS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND OCTOBER 1, 2005
(Unaudited, Millions of Dollars)

	THIRD QUARTER		YEAR TO DATE	
	2006	2005	2006	2005
OPERATING ACTIVITIES				
Net earnings	\$ 90.5	\$ 76.9	\$ 202.9	\$ 209.4
Depreciation and amortization	30.0	23.4	91.3	70.7
Restructuring charges	0.9	2.3	10.0	3.9
Changes in working capital	(43.5)	(45.2)	(42.0)	(70.6)
Changes in other assets and liabilities	39.4	17.2	57.6	(1.1)
Cash provided by operating activities	117.3	74.6	319.8	212.3
INVESTING ACTIVITIES				
Capital expenditures	(21.2)	(17.0)	(59.8)	(44.0)
Proceeds (taxes paid) from sale of business	—	(1.9)	0.9	(20.6)
Business acquisitions and asset disposals	(24.4)	(2.3)	(540.2)	(108.4)
Other investing activities	(0.8)	(0.1)	2.8	(12.7)
Cash used in investing activities	(46.4)	(21.3)	(596.3)	(185.7)
FINANCING ACTIVITIES				
Payments on long-term debt	(0.9)	(7.2)	(1.8)	(21.8)
Net short-term borrowings	(24.2)	(29.8)	85.7	112.5
Cash dividends on common stock	(24.3)	(24.2)	(71.6)	(70.6)
Purchase of common stock for treasury	(0.1)	—	(201.2)	—
Other financing activities	11.9	18.5	46.0	30.6
Cash (used in) provided by financing activities	(37.6)	(42.7)	(142.9)	50.7

Edgar Filing: STANLEY WORKS - Form 10-Q

Effect of exchange rate changes on cash	0.9	1.9	2.9	10.8
Change in cash and cash equivalents	34.2	12.5	(416.5)	88.1
Cash and cash equivalents, beginning of period	207.1	325.6	657.8	250.0
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 241.3	\$ 338.1	\$ 241.3	\$ 338.1

See notes to condensed consolidated financial statements.

3

THE STANLEY WORKS AND SUBSIDIARIES

BUSINESS SEGMENT INFORMATION

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND OCTOBER 1, 2005

(Unaudited, Millions of Dollars)

	THIRD QUARTER		YEAR TO DATE	
	2006	2005	2006	2005
NET SALES				
Consumer Products	\$ 347.9	\$ 289.8	\$ 989.4	\$ 808.3
Industrial Tools	432.8	332.7	1,346.4	1,030.1
Security Solutions	232.0	212.4	663.5	607.5
Total	\$ 1,012.7	\$ 834.9	\$ 2,999.3	\$ 2,445.9
OPERATING PROFIT				
Consumer Products	\$ 64.0	\$ 57.0	\$ 152.0	\$ 140.0
Industrial Tools	41.6	29.8	115.6	104.6
Security Solutions	40.3	38.4	103.5	95.5
Total	\$ 145.9	\$ 125.2	\$ 371.1	\$ 340.1
Interest, net	16.5	8.1	49.5	23.9
Other, net	15.4	12.6	45.6	34.1
Restructuring charges	0.9	2.3	10.0	3.9
Earnings from continuing operations before income taxes	\$ 113.1	\$ 102.2	\$ 266.0	\$ 278.2

See notes to condensed consolidated financial statements.

4

THE STANLEY WORKS AND SUBSIDIARIES

NOTES TO (UNAUDITED) CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

A. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (hereafter referred to as “generally accepted accounting principles”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations for the interim periods have been included and are of a normal, recurring nature. Certain prior year amounts have been reclassified to conform to the current year’s presentation. For further information, refer to the consolidated financial statements and footnotes included in The Stanley Works and Subsidiaries’ (collectively, the “Company”) Annual Report on Form 10-K for the year ended December 31, 2005.

B. Stock-Based Compensation

The Company has stock-based compensation plans for salaried employees and non-employee members of the Board of Directors. The plans provide for discretionary grants of stock options, restricted stock units, and other stock-based awards. The plans are generally administered by the Compensation and Organization Committee of the Board of Directors, consisting of non-employee directors.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment”, (“SFAS 123R”), utilizing the modified prospective method whereby prior periods are not restated for comparability. SFAS 123R requires recognition of stock-based compensation expense in the statement of operations over the vesting period based on the fair value of the award at the grant date. Previously, the Company used the intrinsic value method under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”), as amended by related interpretations of the FASB. Under APB 25, no compensation cost was recognized for stock options because the quoted market price of the stock at the grant date was equal to the amount per share the employee had to pay to acquire the stock after fulfilling the vesting period. SFAS 123R supersedes APB 25 as well as Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation”, which permitted pro forma footnote disclosures to report the difference between the fair value method and the intrinsic value method. The Company recognized expense for restricted share grants under the previous guidance, so the impact from adopting SFAS 123R pertains to the requirement to expense stock options (including employee stock purchase plan options). For the nine month period ended September 30, 2006, the Company expensed \$6.7 million (pre-tax) for stock options, principally classified in selling, general and administrative expense, in the consolidated statement of operations; the after-tax impact of \$4.5 million, reduced diluted earnings per share by five cents, representing the impact of adopting SFAS 123R.

5

The following table provides the pro forma effect on net earnings as if the fair-value-based measurement method had been applied to all stock-based compensation for the nine month period ended October 1, 2005:

(Millions of Dollars)	Year to Date 2005
-----------------------	-------------------------

Edgar Filing: STANLEY WORKS - Form 10-Q

Net earnings, as reported	\$ 209.4
Add: Stock-based compensation expense included in reported income, net of related tax effects	5.9
Less: Stock-based compensation expense determined under fair value method, net of related tax effects	8.7
Pro forma net earnings, fair value method	\$ 206.6
Earnings per share:	
Basic, as reported	\$ 2.52
Basic, pro forma	\$ 2.48
Diluted, as reported	\$ 2.46
Diluted, pro forma	\$ 2.42

Common stock shares reserved for issuance under various employee and director stock plans at September 30, 2006 are as follows:

	2006
Employee stock purchase plan	3,363,834
Stock-based compensation plans	6,328,530
Total	9,692,364

For share-based grants made in 2005 and earlier years, the Company used the “accelerated method” of expense attribution under Financial Accounting Standards Board Interpretation No. 28 (“FIN 28”). Effective January 1, 2006 with the adoption of SFAS 123R, the Company elected to change its policy to straight-line expense attribution for all grants made in 2006 and subsequent periods.

Stock Options

Stock options are granted at the market price of the Company’s stock on the date of grant and have a 10 year term. Generally, stock option grants vest ratably between one and four years from the date of grant. The expense for stock options granted to retirement eligible employees (those aged 55 and over and with 10 or more years of service) is recognized by the date they became retirement eligible, or on the date of grant if they are already retirement eligible, as such employees may retain their options for the 10 year contractual term in the event they retire prior to the end of the vesting period stipulated in the grant.

The following describes how certain assumptions affecting the estimated fair value of stock options are determined. The dividend yield is computed as the annualized dividend rate at the date of grant divided by the strike price of the stock option; expected volatility is based on an average of the market implied volatility and historical volatility for the 5 year expected life; the risk-free interest rate is based on U.S. Treasury securities with maturities equal to the expected life of the option; and an eight percent forfeiture rate is assumed. The Company uses historical data in order to estimate exercise, termination and holding period behavior for valuation purposes.

6

A summary of stock option activity during the nine months ending September 30, 2006 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2005	9,559,604	\$ 34.06		
Granted	32,000	48.62		
Exercised	(1,278,015)	31.24		
Forfeited	(195,375)	37.45		
Outstanding at September 30, 2006	8,118,214	\$ 34.43	5.4	\$ 125,158,552
Exercisable at September 30, 2006	5,247,465	\$ 31.66	4.3	\$ 95,438,658

The weighted average vesting period used for 2006 and 2005 grants is 2.5 years. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used to value the grants for the nine month period ended September 30, 2006 were: 2.4% dividend yield; 27% volatility; 4.5% risk-free interest rate; and 5 year expected life. The weighted average assumptions used to value the grants for the nine month period ended October 1, 2005 were: 2.4% dividend yield; 27% volatility; 4.4% risk-free interest rate; and 5 year expected life. During the nine month periods ended September 30, 2006 and October 1, 2005, the weighted average fair value of stock options granted was \$11.96 and \$11.43, respectively.

At September 30, 2006, the Company had \$7.9 million of unrecognized pre-tax compensation expense for stock options. This expense will be recognized over the remaining vesting periods which is 1.0 year on a weighted average basis.

For the nine month period ended September 30, 2006, the Company received \$40.1 million in cash from the exercise of stock options. The related tax benefit to be realized from the exercise of these options is \$9.1 million. During the nine month periods ended September 30, 2006 and October 1, 2005, the total intrinsic value of options exercised was \$25.1 million and \$19.7 million, respectively. When options are exercised, the related shares are issued from treasury stock.

SFAS 123R requires the benefit arising from tax deductions in excess of recognized compensation cost to be classified as a financing cash flow rather than as an operating cash flow as all such tax benefits were classified under earlier accounting guidance. To quantify the recognized compensation cost on which the excess tax benefit is computed, both actual compensation expense recorded following the adoption of SFAS 123R on January 1, 2006 and pro-forma compensation cost reported in disclosures under the previous SFAS 123 standard in earlier periods is considered. An excess tax benefit is generated on the extent to which the actual gain, or spread, an optionee receives upon exercise of an option exceeds the fair value determined at the grant date; that excess spread over the fair value of the option times the applicable tax rate represents the excess tax benefit. For the nine month period ended September 30, 2006, the Company reported \$3.3 million of excess tax benefits as a financing cash flow.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("ESPP") enables substantially all employees in the United States and Canada to subscribe at any time to purchase shares of common stock on a monthly basis at the lower of 85% of the fair market value of the shares on the grant date (\$40.37 per share for year 2006 purchases and \$35.21 for year 2005 purchases) or 85% of the fair market value of the shares on the last business day of each month. A maximum of 6,000,000 shares are authorized for subscription. During the nine month periods ended September 30, 2006 and October 1, 2005, shares totaling 48,496 and 71,236, respectively, were issued under the plan at average prices of \$38.83 and \$32.47 per share, respectively; and the intrinsic value of the ESPP purchases was \$0.5 million and \$1.0 million, respectively. For the

nine month period ended September 30, 2006, the Company received \$1.9 million in cash from ESPP purchases, and there is no related tax benefit. The fair value of ESPP shares was

7

estimated using the Black Scholes option pricing model. The weighted average fair value of purchase rights exercised under the plan, and the associated valuation assumptions, for the nine month periods ended September 30, 2006 and October 1, 2005 follows:

	2006	2005
Fair value per share	\$9.38	\$10.47
Dividend yield	2.4%	2.4%
Expected volatility	23.0%	20.0%
Risk-free interest rate	4.0%	2.8%
Expected life	0.3yr	0.3yr

Restricted Share Units

Compensation cost for restricted share units (“RSU’s”) granted to employees is recognized ratably over the vesting term, which varies but is generally 1 to 4 years. Non-employee members of the Board of Directors receive payment for their service on the Board in the form of RSU’s which are expensed immediately. For the nine month periods ended September 30, 2006 and October 1, 2005, RSU grants totaled 32,000 shares and 20,000 shares, respectively; the weighted-average grant date fair value of RSU’s was \$46.27 and \$45.90 per share, respectively; total compensation expense recognized for RSU’s amounted to \$2.9 million and \$1.8 million, respectively; and the related tax benefit recorded was \$0.7 million and \$0.4 million, respectively. As of September 30, 2006, unrecognized compensation expense for RSU’s amounted to \$3.9 million and this cost will be recognized over a weighted-average period of 1.1 years.

A summary of non-vested restricted stock unit activity as of September 30, 2006, and changes during the nine month period then ended is as follows:

	Restricted Share Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2005	238,850	\$ 42.32
Granted	32,000	46.27
Vested	(70,084)	35.55
Forfeited	(14,938)	45.55
Non-vested at September 30, 2006	185,828	\$ 43.69

Edgar Filing: STANLEY WORKS - Form 10-Q

The total fair value of shares vested (market value on the date vested) during the nine month periods ended September 30, 2006 and October 1, 2005 was \$3.5 million and \$0.1 million, respectively.

Additionally, non-employee members of the Board of Directors received restricted share-based grants which must be cash settled and accordingly mark-to-market accounting is applied. The after-tax expense recognized for such grants was \$0.5 million and \$0.4 million for the nine month periods ended September 30, 2006 and October 1, 2005, respectively.

Finally, the Company has made performance-based restricted share grants under its long-term stock incentive plan ("LTSIP") to senior management employees. The shares will be issued only if future performance targets for earnings per share and return on capital employed are achieved. The Company has accrued for the expected issuance of shares based on estimates of future performance in relation to the targets. For the nine month periods ended September 30, 2006 and October 1, 2005, expense recognized for the LTSIP plans amounted to \$5.4 million and \$6.5 million, respectively; and the related tax benefit recorded was \$1.9 million and \$2.3 million, respectively.

8

C. Earnings Per Share

The following table reconciles the weighted average shares outstanding used to calculate basic and diluted earnings per share for the three and nine month periods ended September 30, 2006 and October 1, 2005:

	Third Quarter		Year to Date	
	2006	2005	2006	2005
Numerator (in millions):				
Net earnings – basic and diluted	\$ 90.5	\$ 76.9	\$ 202.9	\$ 209.4
Denominator (in thousands):				
Basic earnings per share – weighted average shares	81,206	83,566	81,853	83,160
Dilutive effect of stock options and awards	1,661	1,917	1,816	2,082
Diluted earnings per share – weighted average shares	82,867	85,483	83,669	85,242
Earnings per share of common stock:				
Basic	\$ 1.11	\$ 0.92	\$ 2.48	\$ 2.52
Diluted	\$ 1.09	\$ 0.90	\$ 2.43	\$ 2.46

D. Comprehensive Income

Comprehensive income (loss) for the three and nine month periods ended September 30, 2006 and October 1, 2005 is as follows (in millions):

	Third Quarter		Year to Date	
	2006	2005	2006	2005
Net earnings	\$ 90.5	\$ 76.9	\$ 202.9	\$ 209.4

Edgar Filing: STANLEY WORKS - Form 10-Q

Other comprehensive income (loss), net of tax	8.4	7.0	44.9	(29.4)
Comprehensive income	\$ 98.9	\$ 83.9	\$ 247.8	\$ 180.0

Other comprehensive income (loss) is primarily the impact of foreign currency translation.

E. Inventories

The components of inventories at September 30, 2006 and December 31, 2005 are as follows (in millions):

	2006	2005
Finished products	\$ 448.0	\$ 348.9
Work in process	61.9	38.8
Raw materials	109.3	73.0
Total inventories	\$ 619.2	\$ 460.7

9

F. Acquisitions, Goodwill and Other Intangible Assets

All acquisitions were accounted for as purchases in accordance with SFAS 141, "Business Combinations" and their results are included in the Company's consolidated operating results from the respective acquisition dates.

Integration of certain acquisitions requires reduction of redundant personnel, closure of facilities, and other restructuring actions related to the acquired businesses. In such cases, a restructuring accrual is recorded for actions identified in integration strategy plans initially developed by the Company as of the acquisition date, with a resulting increase to goodwill. Please refer to Note G Restructuring and Asset Impairments for further discussion relating to the restructuring activities associated with the 2006 and 2005 acquisitions.

2006 Acquisitions

On January 1, 2006, the Company completed the acquisition of Facom S.A. ("Facom") for 410 million euros (\$483.3 million) which was financed with a combination of cash on hand and debt issuance. Facom, based in France, is a leading European manufacturer of hand and mechanics tools with annual revenues approximating \$445 million. Facom designs, manufactures and markets the majority of its tool product range to professional automotive and industrial end users with its well-known industrial tool brands: Facom®, Virax® and USAG®. Facom operates primarily within the premium industrial and automotive tools sector in Europe, while the Company's pre-existing European customer base is focused mainly on the construction and D-I-Y ("do-it-yourself") channels. Facom is primarily included in the Company's Industrial Tools segment with its minor D-I-Y business included in the Consumer Products segment.

As of July 31, 2006, the Company completed a tender offer to acquire approximately 67% of the outstanding shares of Besco Pneumatic Corporation ("Besco"), a leading manufacturer of pneumatic tools for \$38.9 million in cash. Over the next five years, the Company will have the option to increase its ownership by an additional 15% to an ultimate ownership of 82%. Besco, which is headquartered in Taiwan and also has operations in China, possesses

state-of-the-art research and development capabilities and efficient production facilities. Besco is currently one of Stanley fastening system's largest suppliers and approximately half of its 2005 sales of \$38 million were to the Company. The acquisition is a key step in reducing the fastening system business' existing cost structure and will facilitate the pursuit of business in emerging markets aided by Besco's brand strength in Asia.

The Company also made four small acquisitions relating to its access technologies, European security integration and fastening systems businesses for a combined purchase price of \$25.5 million.

The total purchase price of \$547.7 million (inclusive of a \$2.4 million hold-back note payable) for the 2006 acquisitions reflects transaction costs and is net of cash acquired. Amounts allocated to the assets acquired and liabilities assumed are based on estimates of fair value. The purchase price allocation of Besco includes 100% of the acquired assets and liabilities, of which \$22.1 million is a non-controlling interest that is reflected in Other liabilities.

10

The purchase price allocations for the 2006 acquisitions are not complete. The primary open matters relate to the finalization of intangible asset and fixed asset valuations, restructuring accruals, deferred taxes, environmental liabilities, employee benefit accruals and other minor items. As of September 30, 2006, the preliminary allocation of the purchase price for the 2006 acquisitions was to the following major opening balance sheet categories:

(In Millions)	First Half 2006 Acquisitions	Adjustments during Third Quarter	As	Third Quarter Acquisitions	Total Acquisitions 9/30/2006
			Adjusted First Half 2006 Acquisitions		
Current assets (primarily accounts receivable and inventories)	\$ 260.8	\$ 4.4	\$ 265.2	\$ 12.7	\$ 277.9
Property, plant and equipment	44.4	0.1	44.5	11.8	56.3
Goodwill	203.1	32.4	235.5	49.4	284.9
Trade names	175.4	—	175.4	1.2	176.6
Customer relationships	11.4	—	11.4	7.8	19.2
Patents and technology	16.5	—	16.5	1.9	18.4
Other intangible assets	1.6	—	1.6	—	1.6
Other long-term assets (primarily deferred tax assets)	23.4	(17.1)	6.3	—	6.3
Total assets	\$ 736.6	\$ 19.8	\$ 756.4	\$ 84.8	\$ 841.2
Current liabilities	\$ 161.9	\$ 45.9	\$ 207.8	\$ 4.7	\$ 212.5
Deferred tax liabilities	25.9	(10.6)	15.3	2.9	18.2
Other liabilities (primarily employee benefits and non-controlling interest)	50.5	(8.7)	41.8	23.4	65.2
Total liabilities	\$ 238.3	\$ 26.6	\$ 264.9	\$ 31.0	\$ 295.9

The adjustments to the purchase price allocation recorded during the third quarter primarily pertain to the recording of restructuring accruals and the related impact on employee benefit liabilities and deferred tax assets/liabilities arising

from the Facom acquisition. These restructuring related adjustments are preliminary and will require further actuarial and tax procedures to finalize.

The weighted average useful lives assigned to the amortizable assets identified above are trade names – 8 years; customer relationships – 13 years; patents and technology – 14 years; and other intangible assets – 10 years. The amount allocated to the trade names includes \$171.6 million associated with the Facom acquisition (Facom®, Virax®, and USAG®) which have been determined to have indefinite lives.

2005 Acquisitions

As described in further detail in Note F Acquisitions of the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, the Company completed 8 acquisitions during 2005 for an aggregate purchase price of \$288.9 million. The acquisitions were made pursuant to the Company's profitable growth strategy which includes expanding the security and branded tools/hardware growth platforms.

On November 30, 2005, the Company completed the acquisition of National Manufacturing Co. ("National") for \$174.2 million. National is a leading North American manufacturer and supplier of builders' hardware that markets the majority of its product range through the two-step cooperative channel to the builder trade and serves over 25,000 outlets with manufacturing operations in the U.S., Canada and Mexico. National is included in the Company's Consumer Products segment.

Five of the remaining completed acquisitions related to the Security Solutions segment for an aggregate purchase price of \$104.3 million and two with a combined purchase price of \$10.4 million related to the Industrial Tools segment. The total purchase price for the 2005 acquisitions (inclusive of a \$6.9 million hold-back note payable) reflects transaction costs and is net of cash acquired, and was allocated to the assets acquired and liabilities assumed based on their estimated fair values.

11

As of September 30, 2006, the allocation of the purchase price for the 2005 acquisitions was to the following major opening balance sheet categories (in millions):

	12/31/2005	Adj.	4/1/2006	Adj.	7/1/2006	Adj.	9/30/2006
Current assets (primarily accounts receivable and inventories)	\$ 126.2	\$ (4.1)	\$ 122.1	\$ (2.4)	\$ 119.7	\$ 0.6	\$ 120.3
Property, plant and equipment	69.7	(18.1)	51.6	—	51.6	(0.4)	51.2
Goodwill	117.2	24.0	141.2	0.4	141.6	1.2	142.8
Trade names	31.1	(0.5)	30.6	—	30.6	—	30.6
Customer relationships	37.0	3.0	40.0	—	40.0	—	40.0
Patents and technology	3.3	—	3.3	—	3.3	—	3.3
Other intangible assets	1.7	—	1.7	—	1.7	—	1.7
Other long-term assets	3.6	—	3.6	4.6	8.2	(2.0)	6.2
Total assets	\$ 389.8	\$ 4.3	\$ 394.1	\$ 2.6	\$ 396.7	\$ (0.6)	\$ 396.1

Edgar Filing: STANLEY WORKS - Form 10-Q

Current liabilities	\$	58.8	\$	5.9	\$	64.7	\$	1.9	\$	66.6	\$
---------------------	----	------	----	-----	----	------	----	-----	----	------	----