STANLEY WORKS
Form 10-Q
November 03, 2008

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(STANLEY LOGO)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 27, 2008.

OR

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

(860) 225-5111

(REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

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

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

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

78,794,900 shares of the registrant s common stock were outstanding as of October 24, 2008

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE STANLEY WORKS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND NINE MONTHS ENDED SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007
(Unaudited, Millions of Dollars, Except Per Share Amounts)

	Third Quarter		Year to Date	
	2008	2007	2008	2007
NET SALES	$ 1,119.7	$ 1,106.2	$ 3,347.6	$ 3,240.0
COSTS AND EXPENSES				
Cost of sales	688.3	684.6	2,068.3	2,009.8
Selling, general and administrative	269.4	250.6	822.7	762.0
Provision for doubtful accounts	5.6	1.8	10.6	8.1
Interest expense	21.0	21.3	61.9	63.8
Interest income	(2.7)	(1.1)	(7.4)	(3.2)
Other, net	28.7	25.2	70.1	67.7
Restructuring charges and asset impairments	4.8	2.8	25.0	10.4
	1,015.1	985.2	3,051.2	2,918.6
Earnings from continuing operations before income taxes	104.6	121.0	296.4	321.4
Income taxes	26.2	32.5	76.9	84.8
Net earnings from continuing operations	78.4	88.5	219.5	236.6
Earnings from discontinued operations before income taxes (including a $128.1 gain on divestiture in the third quarter 2008 and $129.7 year-to-date 2008)	130.4	4.6	139.2	12.4
Income taxes on discontinued operations	44.3	1.7	46.6	4.7
Net earnings from discontinued operations	86.1	2.9	92.6	7.7
NET EARNINGS	$ 164.5	$ 91.4	$ 312.1	$ 244.3
NET EARNINGS PER SHARE OF COMMON STOCK				
Basic:				
Continuing operations	$ 1.00	$ 1.08	$ 2.78	$ 2.86
Discontinued operations	1.09	0.03	1.17	0.09
Total basic earnings per common share	$ 2.09	$ 1.11	$ 3.96	$ 2.96

Diluted:								
Continuing operations	$	0.98	$	1.05	$	2.74	$	2.80
Discontinued operations		1.08		0.03		1.16		0.09
Total diluted earnings per common share	$	2.06	$	1.09	$	3.90	$	2.89
DIVIDENDS PER SHARE OF COMMON STOCK	$	0.32	$	0.31	$	0.94	$	0.91
AVERAGE SHARES OUTSTANDING (in thousands):								
Basic		78,808		82,288		78,867		82,616
Diluted		79,846		83,999		80,025		84,417

See notes to condensed consolidated financial statements.

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THE STANLEY WORKS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 27, 2008 AND DECEMBER 29, 2007
(Unaudited, Millions of Dollars)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 299.3	$ 240.4
Accounts and notes receivable	884.7	831.1
Inventories	571.4	556.4
Other current assets	88.9	86.0
Assets held for sale	4.2	106.0
Total current assets	1,848.5	1,819.9
Property, plant and equipment	1,477.4	1,449.0
Less: accumulated depreciation	888.7	884.1
	588.7	564.9
Goodwill	1,664.7	1,512.5
Trademarks	342.5	332.2
Customer relationships	433.6	321.4
Other intangible assets	46.1	40.6
Other assets	197.2	188.4
Total assets	$ 5,121.3	$ 4,779.9
LIABILITIES AND SHAREOWNERS EQUITY		
Current liabilities		
Short-term borrowings	$ 442.9	$ 282.5
Current maturities of long-term debt	13.3	10.3
Accounts payable	523.8	499.6
Accrued expenses	516.4	467.5
Liabilities held for sale	2.4	18.5
Total current liabilities	1,498.8	1,278.4
Long-term debt	1,194.4	1,212.1
Other liabilities	556.6	560.9
Commitments and contingencies (Note L)		
Shareowners equity		
Common stock, par value $2.50 per share	233.9	233.9
Retained earnings	2,288.9	2,045.5
Accumulated other comprehensive income	19.0	47.7
ESOP	(88.8)	(93.8)

	2,453.0	2,233.3
Less: cost of common stock in treasury	581.5	504.8
Total shareowners equity	1,871.5	1,728.5
Total liabilities and shareowners equity	$ 5,121.3	$ 4,779.9

See notes to condensed consolidated financial statements.

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THE STANLEY WORKS AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE AND NINE MONTHS ENDED SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007
(Unaudited, Millions of Dollars)

	Third Quarter		Year to Date	
	2008	**2007**	**2008**	**2007**
OPERATING ACTIVITIES				
Net earnings	$ 164.5	$ 91.4	$ 312.1	$ 244.3
Depreciation and amortization	47.2	42.2	128.5	120.1
Changes in working capital	28.0	(22.3)	(4.7)	(54.4)
Net gain on sale of businesses	(84.3)		(85.9)	
Changes in other assets and liabilities	10.5	19.0	7.1	16.2
Cash provided by operating activities	165.9	130.3	357.1	326.2
INVESTING ACTIVITIES				
Capital expenditures	(28.3)	(11.5)	(81.9)	(55.0)
Proceeds from sale of businesses, net of income taxes paid	162.5		165.8	
Business acquisitions	(336.2)	(64.2)	(364.4)	(633.1)
Other investing activities	15.8	6.6	24.5	9.7
Cash used in investing activities	(186.2)	(69.1)	(256.0)	(678.4)
FINANCING ACTIVITIES				
Payments on long-term debt	(1.0)	(0.5)	(8.7)	(76.9)
Proceeds from long-term borrowings	0.2		0.2	529.8
Deferred financing costs and other	(4.0)		(11.8)	(12.1)
Bond hedge premium				(49.3)
Net short-term borrowings	(31.5)	13.4	141.0	145.7
Cash dividends on common stock	(25.2)	(25.4)	(73.8)	(74.9)
Proceeds from issuance of common stock and warrants	7.4	4.1	17.4	89.9
Purchase of common stock for treasury			(102.3)	(106.9)
Cash (used in) provided by financing activities	(54.1)	(8.4)	(38.0)	445.3
Effect of exchange rate changes on cash	(10.5)	2.1	(4.2)	10.9
Change in cash and cash equivalents	(84.9)	54.9	58.9	104.0
Cash and cash equivalents, beginning of period	384.2	225.7	240.4	176.6
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 299.3	$ 280.6	$ 299.3	$ 280.6

See notes to condensed consolidated financial statements.

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THE STANLEY WORKS AND SUBSIDIARIES

BUSINESS SEGMENT INFORMATION
THREE AND NINE MONTHS ENDED SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007
(Unaudited, Millions of Dollars)

	Third Quarter		Year to Date	
	2008	**2007**	**2008**	**2007**
NET SALES				
Construction & DIY	$ 426.7	$ 437.5	$ 1,284.3	$ 1,274.4
Industrial	298.1	298.1	969.0	908.4
Security	394.9	370.6	1,094.3	1,057.2
Total	$ 1,119.7	$ 1,106.2	$ 3,347.6	$ 3,240.0
SEGMENT PROFIT				
Construction & DIY	$ 54.2	$ 72.2	$ 167.0	$ 194.0
Industrial	40.2	41.4	133.0	132.5
Security	74.0	68.3	192.9	181.3
Segment Profit	168.4	181.9	492.9	507.8
Corporate Overhead	(12.0)	(12.7)	(46.9)	(47.7)
Total	$ 156.4	$ 169.2	$ 446.0	$ 460.1
Interest expense	21.0	21.3	61.9	63.8
Interest income	(2.7)	(1.1)	(7.4)	(3.2)
Other, net	28.7	25.2	70.1	67.7
Restructuring charges and asset impairments	4.8	2.8	25.0	10.4
Earnings from continuing operations before income taxes	$ 104.6	$ 121.0	$ 296.4	$ 321.4

See notes to condensed consolidated financial statements.

THE STANLEY WORKS AND SUBSIDIARIES
NOTES TO (UNAUDITED) CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 27, 2008

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 or GAAP) 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. For further information, refer to the consolidated financial statements and footnotes included in The Stanley Works and Subsidiaries (collectively, the Company) Form 10-K for the year ended December 29, 2007.

Certain prior year amounts have been reclassified to conform to the current year presentation. The assets and liabilities of discontinued operations have been reclassified as held for sale in the 2007 consolidated balance sheet, and the earnings from discontinued operations have been reclassified within the consolidated statements of operations.

B. New Accounting Standards

Implemented: The Company adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157), with respect to items that are regularly adjusted to fair value, as of the beginning of its fiscal year. SFAS 157 provides a common fair value hierarchy to follow in determining fair value measurements in the preparation of financial statements and expands disclosure requirements relating to how such measurements were developed. SFAS 157 indicates that an exit value (selling price) should be utilized in fair value measurements rather than an entrance value, or cost basis, and that performance risks, such as credit risk, should be included in the measurements of fair value even when the risk of non-performance is remote. SFAS 157 clarifies the principle that fair value measurements should be based on assumptions the marketplace would use when pricing an asset whenever practicable, rather than company-specific assumptions. On February 12, 2008 the FASB issued Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2) which amends SFAS 157 to delay the effective date for all non-financial assets and non-financial liabilities, except for those that are recognized at fair value in the financial statements on a recurring basis. Accordingly, in fiscal 2008 the Company has followed the SFAS 157 guidance to value its financial assets and liabilities that are routinely adjusted to fair value, predominantly derivatives. The remaining assets and liabilities, to which the FSP 157-2 deferral relates, will be measured at fair value as applicable beginning in fiscal 2009. The partial adoption of SFAS 157 as described above had an immaterial impact on the Company in the current fiscal year. The Company is in the process of determining the impact, if any, that the second phase of the adoption of SFAS 157 in fiscal 2009 will have relating to its fair value measurements of non-financial assets and liabilities (such as intangible assets). Refer to Note O for further information regarding fair value measurements.

In February 2007, the FASB issued SFAS No 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This statement became effective for the Company at the beginning of the current fiscal year. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company did not elect to utilize voluntary fair value measurements as permitted by the standard.

Not Yet Implemented: In May 2008, the FASB issued Staff Position Accounting Principles Board (APB) 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 applies to

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convertible debt instruments that have a net settlement feature permitting settlement partially or fully in cash upon conversion. The guidance requires issuers of such convertible debt securities to separately account for the liability and equity components in a manner that reflects the issuer s nonconvertible, unsecured debt borrowing rate. The FSP requires bifurcation of a component of the debt into equity, representative of the approximate fair value of the conversion feature at inception, and the amortization of the resulting debt discount to interest expense in the Consolidated Statement of Operations. The Company is in the process of assessing the impact of FSP APB 14-1, but estimates that approximately $55 million of Long-term debt will be reclassified to equity as of the inception of the $330 million of convertible notes issued in March 2007. The estimated $55 million debt discount will be amortized to interest expense resulting in the recognition of approximately $8-$12 million of additional non-cash interest expense annually. The non-cash interest recognized will gradually increase over time using the effective interest method. FSP APB 14-1 will become effective for the Company beginning in the first quarter of 2009 and is required to be applied retrospectively with early adoption prohibited.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition), establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the information needed to evaluate and understand the nature and effect of the business combination. This statement applies to all transactions or other events in which the acquirer obtains control of one or more businesses, including those sometimes referred to as true mergers or mergers of equals and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. For new acquisitions made following the adoption of SFAS 141(R), significant costs directly related to the acquisition including legal, audit and other fees, as well as most acquisition-related restructuring, will have to be expensed as incurred rather than recorded to goodwill as is generally permitted under Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS 141). Additionally, contingent purchase price arrangements (also known as earn-outs) will be re-measured to estimated fair value with the impact reported in earnings, whereas under present rules the contingent purchase consideration is recorded to goodwill when determined. The Company is continuing to assess the impact the adoption of SFAS 141(R) will entail. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 4, 2009.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 requires reporting entities to present non-controlling (minority) interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and non-controlling interests. SFAS 160 will apply prospectively and is effective as of the beginning of fiscal 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented upon adoption. The Company is in the process of determining the impact, if any, that the adoption of SFAS 160 will have on its results of operations and financial position.

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Under the FSP, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years, and is not expected to have a significant impact on the Company s results of operations, financial condition or liquidity.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension

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assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), and other GAAP. This FSP applies prospectively to all intangible assets acquired after the effective date in fiscal 2009, whether acquired in a business combination or otherwise. Early adoption is prohibited. The Company is evaluating this guidance but does not expect it to have a significant impact on its financial position or results of operations.

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 27, 2008 and September 29, 2007:

	Third Quarter		Year to Date	
	2008	**2007**	**2008**	**2007**
Numerator (in millions):				
Net earnings basic and diluted	$ 164.5	$ 91.4	$ 312.1	$ 244.3
Denominator (in thousands):				
Basic earnings per share weighted average shares	78,808	82,288	78,867	82,616
Dilutive effect of stock options and awards	1,038	1,711	1,158	1,801
Diluted earnings per share weighted average shares	79,846	83,999	80,025	84,417
Earnings per share of common stock:				
Basic	$ 2.09	$ 1.11	$ 3.96	$ 2.96
Diluted	$ 2.06	$ 1.09	$ 3.90	$ 2.89

The following weighted-average stock options and warrants to purchase the Company s common stock were outstanding during the three and nine month periods ended September 27, 2008 and September 29, 2007, but were not included in the computation of diluted shares outstanding because the effect would be anti-dilutive.

	Third Quarter		Year to Date	
	2008	**2007**	**2008**	**2007**
Number of stock options (in thousands)	1,902	569	1,640	745
Number of stock warrants (in thousands)	5,093	5,093	5,093	3,565

D. Comprehensive Income

Comprehensive income for the three and nine month periods ended September 27, 2008 and September 29, 2007 is as follows (in millions):

	Third Quarter		Year to Date	
	2008	**2007**	**2008**	**2007**

Net earnings	$ 164.5	$ 91.4	$ 312.1	$ 244.3
Other comprehensive gain (loss), net of tax	(72.0)	40.9	(28.7)	77.8
Comprehensive income	$ 92.5	$ 132.3	$ 283.4	$ 322.1

Other comprehensive gain (loss) is primarily the impact of foreign currency translation and changes in the fair value of cash flow hedges.

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E. Accounts Receivable

In June 2008, the Company acquired a third party s interest in a Special Purpose Entity (SPE). As a result, the entity became non-qualifying and the net assets, which consisted of accounts receivable of $17.3 million, were consolidated in the Company s balance sheet. Net cash flows between the Company and the SPE for 2008 totaled $43.2 million, primarily related to receivable sales, collections on receivables and servicing fees. There were no gains or losses on the sale of receivables to the SPE or on the acquisition of the third party interest.

F. Inventories

The components of inventories at September 27, 2008 and December 29, 2007 are as follows (in millions):

	2008	2007
Finished products	$ 406.8	$ 397.2
Work in process	70.9	57.5
Raw materials	93.7	101.7
Total inventories	$ 571.4	$ 556.4

G. Assets Held for Sale

The assets of one small security business (Blick Alfia) are classified as held for sale at September 27, 2008, as detailed in Note P Discontinued Operations . In addition to the security business, the assets of CST/berger and one other small business (Facom Lista) in the amount of $76.5 million were held for sale as of December 29, 2007. Further, the Company held $24.3 million of financing lease receivables generated by the Blick business as of December 29, 2007. These receivables were sold during the first quarter of 2008.

H. Acquisitions and Goodwill

In July 2008, the Company completed the acquisitions of Sonitrol Corporation (Sonitrol) and Xmark Corporation (Xmark) for $281.3 million in cash and $46.6 million in cash, respectively. The Sonitrol acquisition has preliminarily resulted in $133.1 million of goodwill, the majority of which, will not be deductible for income tax purposes. Sonitrol is a market leader in North American commercial security monitoring services, access control and fire detection systems, with annual revenues of approximately $110 million. The acquisition will complement the product offering of the pre-existing security integration businesses including HSM acquired in early 2007. The Xmark acquisition has preliminarily resulted in $22.7 million of goodwill, none of which is deductible for income tax purposes. Xmark, headquartered in Canada, markets and sells radio frequency identification based systems used to identify, locate and protect people and assets, with annual revenues of approximately $30 million. The acquisition will enhance the Company s personal security business.

The Company also made five small acquisitions relating to its mechanical access systems and convergent security solutions businesses during 2008. These five acquisitions were acquired for a combined purchase price of $34.0 million.

The total purchase price of $361.9 for the 2008 acquisitions was accounted for as purchases in accordance with SFAS 141. The total purchase price for the acquisitions 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. The purchase price allocations of these acquisitions are preliminary, mainly with respect to the finalization of intangible asset valuations, related deferred taxes, and certain other items.

During 2007, the Company completed nine acquisitions for a total purchase price of $646.7 million. The purchase price allocation for one small acquisition with a total purchase price of $11.1 million is preliminary, mainly with respect to execution of acquisition date integration plans and other minor items. There were no significant changes to the purchase price allocation made during 2008.

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Goodwill

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

	Construction & DIY	Industrial	Security	Total
Balance as of December 29, 2007	$ 214.2	$ 387.3	$ 911.0	$ 1,512.5
Acquisitions during the year			173.0	173.0
Foreign currency translation/other	(0.7)	(4.6)	(15.5)	(20.8)
Balance as of September 27, 2008	$ 213.5	$ 382.7	$ 1,068.5	$ 1,664.7

I. Restructuring Charges and Asset Impairments

At September 27, 2008, the Company s restructuring reserve balance was $25.4 million. This will be substantially expended during 2008, aside from approximately $7 million pertaining to the Facom acquisition for which the timing of payments depends upon the actions of certain European governmental agencies. A summary of the Company s restructuring reserve activity from December 29, 2007 to September 27, 2008 is as follows (in millions):

	12/29/07	Net Additions	Usage	Currency	9/27/08
Acquisitions					
Severance	$ 18.8	$ 0.8	$ (6.0)		$ 13.6
Facility Closure	1.6	1.4	(0.9)		2.1
Other	1.0		(0.4)		0.6
2008 Actions		25.0	(15.1)	(0.8)	9.1
Pre-2008 Actions	2.3		(2.3)		
	$ 23.7	$ 27.2	$ (24.7)	$ (0.8)	$ 25.4

2008 Actions: During the first nine months of 2008, the Company initiated cost reduction initiatives in order to maintain its cost competitiveness. Severance and related charges of $20.0 million were recorded during the first nine months relating to the reduction of approximately 700 employees. In addition to severance, $5.0 million was recorded for asset impairments primarily relating to the exit of a business. Approximately $10.9 million of the total charges pertained to the Construction and DIY segment; $6.2 million to the Industrial segment; and $7.9 million to the Security segment. Of these amounts, $15.1 million has been utilized to date, with $9.1 million of reserves remaining as of September 27, 2008.

Pre-2008 Actions: During 2007, the Company initiated $11.8 million of cost reduction actions in various businesses. These actions were comprised of the severance of 525 employees and the exit of a leased facility. This entire amount has been utilized as of September 27, 2008.

Acquisition Related: During the third quarter of 2008, $2.0 million of reserves were established primarily relating to the Sonitrol acquisition. Of this amount, $0.6 million was for severance of approximately 100 employees and $1.4 million relates to the planned closure of 9 facilities. During 2007, $3.0 million of reserves were established for HSM in purchase accounting. Of this amount, $1.1 million was for severance of approximately 80 employees and $1.9 million related to the closure of 13 branch facilities. As of September 27, 2008, $2.1 million has been utilized, leaving $0.9 million remaining. The Company also utilized $6.7 million of restructuring reserves during the first nine months of 2008 established for various other current year and prior year acquisitions. As of September 27, 2008, $16.3 million in accruals for restructuring remain, primarily relating to the Facom, HSM and Sonitrol acquisitions.

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J. Credit Facility

On February 27, 2008, the Company amended its credit facility to provide for an increase and extension of its committed credit facility to $800 million from $550 million. In May 2008, the Company s commercial paper program was also increased to $800 million. The credit facility continues to be designated as a liquidity back-stop for the Company s commercial paper program. The amended and restated facility expires in February 2013.

K. Financial Instruments

In an effort to continue to optimize the mix of fixed versus floating rate debt in the Company s capital structure, in May 2008 the Company entered into a $200 million interest rate swap. The swap matures November 2012, matching the maturity of the outstanding 4.9%, $200 million Note. On the interest rate swap, the Company will pay a floating rate of interest and will receive a fixed rate of interest equal to the fixed rate payable on the Note. The swap hedges the fluctuations in the fair value resulting from changes in interest rates. At September 27, 2008, the fair value of this interest rate swap was a loss of $1.2 million. This amount is recorded in Long-term debt in the Consolidated Balance Sheet to recognize the change in the fair value of the long-term debt and in Other liabilities to record the fair value of the swap. The swap is highly effective and, accordingly, no amount is recorded for ineffectiveness in the Consolidated Statement of Operations.

L. Commitments and Contingencies

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

The Company s policy is to accrue environmental investigatory and remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. As of September 27, 2008 and December 29, 2007, the Company had reserves of $29.3 million and $30.1 million, respectively, primarily for remediation activities associated with company-owned properties as well as for Superfund sites. The range of environmental remediation costs that is reasonably possible is $19.5 million to $52.5 million which is subject to change in the near term.

As of September 27, 2008 the Company has commitments to purchase Générale de Protection (GdP) and Scan Modul for approximately $166 million and $20 million in cash, respectively. Both acquisitions closed on October 1 as disclosed in Note Q. Subsequent Events.

M. Guarantees

The Company s financial guarantees at September 27, 2008 were as follows (in millions):

	Term	Maximum Potential Payment	Liability Carrying Amount
Guarantees on the residual values of leased properties	Up to 6 years	$ 80.5	$ 19.2

Standby letters of credit	Generally 1 year		35.1		
Commercial customer financing arrangements	Up to 5 years		17.7		15.3
Guarantee on the external Employee Stock Ownership Plan (ESOP) borrowings	Through 2009		2.0		2.0
		$	135.3	$	36.5

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The Company has guaranteed a portion of the residual value arising from its synthetic lease and U.S. master personal property lease programs. The lease guarantees aggregate $80.5 million while the fair value of the underlying assets is estimated at $96.9 million. The related assets would be available to satisfy the guarantee obligations and therefore it is unlikely the Company will incur any future loss associated with these lease guarantees. The Company has recorded $19.2 million in debt pertaining to one of these synthetic leases. The Company has issued $35.1 million in standby letters of credit that guarantee future payments which may be required under certain insurance programs. The Company provides various limited and full recourse guarantees to financial institutions that provide financing to U.S. and Canadian Mac Tool distributors for their initial purchase of the inventory and truck necessary to function as a distributor. In addition, the Company provides a full recourse guarantee to a financial institution that extends credit to certain end retail customers of its U.S. Mac Tool distributors. The gross amount guaranteed in these arrangements is $17.7 million and the $15.3 million carrying value of the guarantees issued is recorded in debt and other liabilities as appropriate in the consolidated balance sheet.

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

The changes in the carrying amount of product and service warranties for the nine months ended September 27, 2008 are as follows (in millions):

Balance December 29, 2007	$ 63.7
Warranties and guarantees issued	16.7
Warranty payments	(17.2)
Currency and other	1.7
Balance September 27, 2008	$ 64.9

N. Net Periodic Benefit Cost Defined Benefit Plans

Following are the components of net periodic benefit cost for the three and nine month periods ended September 27, 2008 and September 29, 2007 (in millions):

	Third Quarter					
	Pension Benefits				Other Benefits	
	U.S. Plans		Non-U.S. Plans		U.S. Plans	
	2008	2007	2008	2007	2008	2007
Service cost	$ 0.7	$ 0.6	$ 0.9	$ 0.9	$ 0.2	$ 0.4
Interest cost	2.4	2.2	3.2	3.5	0.2	0.2
Expected return on plan assets	(2.6)	(2.5)	(3.8)	(4.6)		
Amortization of transition liability				0.1		
Amortization of prior service cost/(credit)	0.3	(0.8)			(0.1)	
Amortization of net (gain) loss	0.1	0.1	0.6	1.3	(0.1)	(0.2)
Curtailment (gain) loss		1.1	(0.2)	0.3		

Net periodic benefit cost	$ 0.9	$ 0.7	$ 0.7