

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-17** | Period of Report: **1994-04-02**
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FILER

STANLEY WORKS

CIK: **93556** | IRS No.: **060548860** | State of Incorporation: **CT** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-05224** | Film No.: **94529115**
SIC: **3420** Cutlery, handtools & general hardware

Business Address
1000 STANLEY DR
P O BOX 7000
NEW BRITAIN CT 06053
2032255111

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

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 period ended April 2, 1994

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

I.R.S. Employer Identification Number 06-0548860

THE STANLEY WORKS

(a Connecticut Corporation)
1000 Stanley Drive
New Britain, Connecticut 06053
Telephone: (203) 225-5111

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, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 44,777,086 shares of the company's Common Stock (\$2.50 par value) were outstanding as of May 6, 1994.

<TABLE>

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE STANLEY WORKS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Millions of Dollars)

<CAPTION>

	FIRST QUARTER	
	1994	1993
<S>	<C>	<C>
Net Sales	\$ 585.7	\$ 553.4
Costs and Expenses		
Cost of sales	394.4	374.7
Selling, general and administrative	133.8	130.1
Interest - net	7.4	7.3
Other - net	8.8	3.8
	-----	-----
	544.4	515.9
	-----	-----
Earnings Before Income Taxes and Cumulative Effect of Accounting Change	41.3	37.5
Income Taxes	15.7	14.5
	-----	-----
Earnings Before Cumulative Effect of Accounting Change	25.6	23.0
Cumulative Effect of Accounting Change for Postemployment Benefits		(8.5)
	-----	-----
Net Earnings	\$ 25.6	\$ 14.5
	=====	=====
Net Earnings Per Share of Common Stock:		
Before Cumulative Effect of Accounting Change	\$ 0.57	\$ 0.51

Cumulative Effect of Accounting Change			(0.19)
	-----	-----	
Net Earnings Per Share of Common Stock	\$	0.57	\$ 0.32
	=====	=====	
Dividends per share	\$	0.34	\$ 0.33
Average shares outstanding (in thousands)		44,771	45,274

<FN>
See notes to consolidated financial statements.

</TABLE>

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<TABLE>

THE STANLEY WORKS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Millions of Dollars)

<CAPTION>

	April 2 1994	January 1 1994
ASSETS		
Current Assets		
<S>	<C>	<C>
Cash and cash equivalents	\$ 36.5	\$ 43.7
Accounts and notes receivable, net	389.6	371.2
Inventories	327.5	308.1
Other current assets	35.5	35.6
	-----	-----
Total Current Assets	789.1	758.6
Property, Plant and Equipment	1,128.4	1,119.0
Less: accumulated depreciation	(567.4)	(552.5)
	-----	-----
	561.0	566.5
Goodwill and Other Intangibles	169.0	171.5
Other Assets	77.6	80.3
	-----	-----
	\$ 1,596.7	\$ 1,576.9
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable	\$ 79.5	\$ 42.3
Current maturities of long-term debt	9.6	9.8
Accounts payable	94.2	103.3
Accrued expenses	178.0	201.7

Total Current Liabilities	361.3	357.1
Long-Term Debt	380.1	377.2
Deferred Income Taxes	35.3	36.0
Other Liabilities	125.7	125.7
Shareholders' Equity		
Common stock	115.4	115.4
Capital in excess of par value	72.0	73.1
Retained earnings	882.3	871.1
Foreign currency translation adjustment	(58.4)	(56.7)
ESOP Debt	(259.4)	(261.5)
	751.9	741.4
Less: cost of common stock in treasury	57.6	60.5
Total Shareholders' Equity	694.3	680.9
	\$ 1,596.7	\$ 1,576.9

<FN>

See notes to consolidated financial statements.

</TABLE>

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<TABLE>

THE STANLEY WORKS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of Dollars)

<CAPTION>

	FIRST QUARTER	
	1994	1993
Operating Activities		
<S>	<C>	<C>
Net Earnings	\$ 25.6	\$ 14.5
Depreciation and amortization	21.2	22.1
Provision for postemployment benefits		13.5
Net gain on sale of non-operating asset		(24.0)
Other non-cash items	5.3	5.0
Changes in operating assets and liabilities	(58.0)	(35.5)

Net cash used by operating activities	(5.9)	(4.4)
Investing Activities		
Capital expenditures	(13.2)	(14.5)
Proceeds from sales of assets	1.6	1.1
Proceeds from sale of non-operating asset		32.9
Business acquisitions		(0.9)
Other	(0.3)	0.9
	-----	-----
Net cash provided (used) by investing activities	(11.9)	19.5
Financing Activities		
Payments on long-term debt	(0.5)	(1.3)
Proceeds of long-term borrowings		0.1
Net short-term bank financing	38.2	24.8
Proceeds from issuance of common stock	0.3	0.4
Purchase of common stock for treasury		(26.5)
Cash dividends on common stock	(29.9)	(15.0)
	-----	-----
Net cash provided (used) by financing activities	8.1	(17.5)
Effect of exchange rate changes on cash	2.5	(0.8)
	-----	-----
Decrease in Cash and Cash Equivalents	(7.2)	(3.2)
Cash and Cash Equivalents, Beginning of Period	43.7	81.1
	-----	-----
Cash and Cash Equivalents, End of First Quarter	\$ 36.5	\$ 77.9
	=====	=====

<FN>

See notes to consolidated financial statements.

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THE STANLEY WORKS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY
(Millions of Dollars)

<CAPTION>

	THREE MONTHS	
	1994	1993
<S>	<C>	<C>
Balance at beginning of year	\$ 680.9	\$ 696.3
Net earnings	25.6	14.5
Currency translation adjustment	(1.7)	0.1
Cash dividends declared	(15.2)	(15.0)
Net issuance of common stock	2.6	(24.9)
ESOP debt	2.1	2.0
Balance at end of first quarter	\$ 694.3	\$ 673.0
	=====	=====

<FN>

See notes to consolidated financial statements.

</TABLE>

THE STANLEY WORKS AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 2, 1994

NOTE A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q 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 (consisting of only normal recurring items) considered necessary for a fair presentation of the results of operations for the interim periods have been included. For further information, refer to the consolidated financial statements and footnotes included in the company's annual report on Form 10-K for the year ended January 1, 1994.

NOTE B - Computation of Earnings Per Share

Earnings per share are based upon the weighted average number of common shares outstanding. The exercise of outstanding stock subscriptions and options would not result in a material dilution of earnings per share. (See Exhibit 11)

NOTE C - Inventories

The classification of inventories at the end of the first quarter of 1994 and at year-end 1993, in millions of dollars, is as follows:

April 2	January 1
1994	1994
-----	-----

Finished products	\$ 211.9	\$ 195.7
Work in process	63.5	61.1
Raw materials	49.3	48.7
Supplies	2.8	2.6
	-----	-----
	\$ 327.5	\$ 308.1
	=====	=====

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NOTE D - Cash Flow Information

Interest paid during the first quarter of 1994 and 1993 amounted to \$8.2 million and \$8.1 million, respectively.

Income taxes paid during the first quarter of 1994 and 1993 were \$10.4 million and \$9.0 million, respectively.

NOTE E - Other-net Expenses

In the consolidated statement of earnings for the first quarter of 1993, Other-net included a gain of \$24.0 million (\$.33 per share) from the sale of a portion of the company's investment in Max Co., Ltd. Also included in Other-net were additional charges for a fine levied by U.S. District Court in Missouri for \$7.0 million (\$.10 per share) and contingency reserves of \$15.7 million (\$.21 per share) related to product liability litigation, restructuring activities and environmental remediation.

NOTE F - Restatement

Certain 1993 amounts in the Business Segment Information were reclassified to conform to the 1994 presentation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

First quarter sales of \$586 million were the highest first quarter sales ever experienced by the company and represented a 6% increase over the prior year. Net earnings of \$26 million represented an

11% increase over first quarter 1993 and was slightly higher than the record set in the first quarter 1989. These improvements are the result not only of strengthening markets, but of the company's continued focus on operational excellence.

Net sales growth was generated primarily by unit volume increases, the most significant of which was in the U.S. Only minor price increases were realized increasing sales by 1%; however, this increase was offset by the negative effects of currency. The incremental effect of acquisitions increased sales by an additional 1%.

First quarter earnings per share of \$.57 represented a 12% increase over comparable earnings per share of \$.51 reported in 1993. The \$.51 per share reported for 1993 excludes the effects of the accounting change for FAS 112.

Gross margins improved to 32.7% from 32.3% in the prior year quarter. The improvement in margins was even more notable when compared with 31.2% reported in the fourth quarter 1993. Manufacturing efficiencies achieved from increased volume, especially in the company's Mechanics Tools division, were principally responsible for the improvement. Operating expenses were also reduced, as a percent of sales, to 22.8% compared with 23.5% in the first quarter 1993.

Interest-net expenses of \$7 million were 1.3% of first quarter sales, generally consistent with the prior year. Other-net expenses for the period were \$9 million compared with \$4 million in the same quarter a year ago. Included in Other-net in 1993 was a pretax gain of \$24 million (\$.33 per share) from the sale of a non-operating asset and charges of \$22.7 million (\$.31 per share) for contingency reserves.

Net sales in the U.S. were up 6%, principally from internal growth. The U.S. industrial, engineered and construction markets continued to exhibit strong growth. Price increases of 1% were offset by the net incremental effects of acquisitions and divestitures.

Net sales in Europe for the first quarter were 6% higher than last year, reflecting a 3% unit volume increase primarily within the consumer tools businesses. Recent acquisitions increased sales by 5%. Minor price increases added 1% to sales, while the currency effects of a stronger dollar decreased sales by 3%.

Net sales in Other Areas increased 5% for the quarter compared with the same period a year ago. Strong internal growth in the Pacific Rim more than offset continued weakness in Canada and Australia and resulted in a net 3% increase in unit sales. In addition, the incremental effect of acquisitions increased sales by 3%. The net

effect of currency and price was a 1% decrease in sales. Operating profits of \$6 million were lower than the prior year as a result of the integration costs associated with a recent acquisition.

Net sales in the Tools segment increased 6% for the quarter primarily the result of internal growth in the company's industrial and engineered tools categories. Consumer tool businesses continued to experience only modest growth. Price increases of 1% were offset by the negative effects of currency. The incremental effect of acquisitions added 1% to sales. Operating profits increased 28% from the first quarter 1993 to \$48 million. Operating profits reported in 1993 included approximately \$4 million of restructuring charges. Operating margins of 11% were much improved over prior year margins reported of 9.1% (10.0% without the one-time charges).

Hardware segment net sales were 2% lower than first quarter sales reported a year ago. Unit volume declined by 2% and was the result of weak consumer activity in Canada and Europe and, to a lesser extent, in the U.S. Net price increases of 1% were offset by the negative effects of currency. Operating profits of \$9 million included costs associated with an earthquake that damaged the Chatsworth, California mirror manufacturing facility. Operating margins of 11.5% would have been 13.2% excluding the incurred property losses related to the earthquake. Operating margins in the first quarter 1993 were 13.6%.

Specialty Hardware sales for the first quarter 1994 were 13% higher than the first quarter of 1993. The gain was almost entirely the result of higher unit volume in the U.S. Operating margins, which are generally lower in the first quarter for this segment, were 4.7%, representing a significant improvement over margins of 1.2% reported last year. Prior year margins were depressed due to raw material cost increases, especially in wood, and manufacturing process problems.

The company considers the first quarter results to be early confirmation that optimism for 1994 is well founded. Strength in the industrial and construction markets in the U.S. should continue to contribute to the company's results. The company expects improving conditions in its consumer markets as the year progresses assuming that the interest rate environment remains favorable for homeowners and consumers. The company continues to feel positive about the outlook for 1994.

Liquidity and Sources of Capital

During the first quarter of 1994, the company experienced a \$7.2 million decrease in its cash position, primarily the result of increased working capital needs associated with growth in its businesses. Temporary short-term borrowings helped fund capital expenditures and the payment of dividends.

Capital expenditures for the year are forecast at approximately \$70 million.

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<TABLE>

THE STANLEY WORKS AND SUBSIDIARIES
BUSINESS SEGMENT INFORMATION
(Millions of Dollars)

<CAPTION>

	FIRST 1994	QUARTER 1993
INDUSTRY SEGMENTS		
Net Sales		
Tools		
<S>	<C>	<C>
Consumer	\$ 162.6	\$ 158.9
Industrial	130.5	115.2
Engineered	148.6	141.8
	-----	-----
Total Tools	441.7	415.9
Hardware	77.6	78.9
Specialty Hardware	66.4	58.6
	-----	-----
Consolidated	\$ 585.7	\$ 553.4
	=====	=====
Operating Profit		
Tools	\$ 48.4	\$ 37.9
Hardware	8.9	10.7
Specialty Hardware	3.1	0.7
	-----	-----
Total	60.4	49.3
Net corporate expenses	(11.0)	(3.5)
Interest expense	(8.1)	(8.3)
	-----	-----
Earnings before income taxes	\$ 41.3	\$ 37.5

GEOGRAPHIC AREAS

Net Sales			
United States	\$	420.2	\$ 396.7
Europe		88.4	83.2
Other Areas		77.1	73.5
		-----	-----
Consolidated	\$	585.7	\$ 553.4
		=====	=====
Operating Profit			
United States	\$	44.8	\$ 33.7
Europe		9.7	8.6
Other Areas		5.9	7.0
		-----	-----
Total	\$	60.4	\$ 49.3
		=====	=====

<FN>

See notes to consolidated financial statements.

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PART II - OTHER INFORMATION

Item 1. - Legal Proceedings

On May 6, 1994, the U.S. government withdrew its appeal of a decision by the Court of International Trade issued on December 20, 1993 dismissing an action instituted by the U.S. government against the Company. The action had alleged that National Hand Tool Corporation (formerly a wholly owned subsidiary and presently a division of the company) ("NHT") had engaged in the intentional removal of country-of-origin marks from imported screwdrivers, mallets and prybars and failed to place country-of-origin marking on forgings that it imported for manufacture into sockets and other socket wrench components. The U.S. government alleged that this activity began prior to the company's acquisition of NHT in 1986 and continued to August 1988.

Item 6. - Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K.

Registrant filed a Current Report on Form 8-K, dated January 31, 1994, in respect of the Registrant's press release announcing year end results.

Registrant filed a Current Report on Form 8-K, dated March 2, 1994, in respect of the Registrant's press release announcing its first quarter dividend.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE STANLEY WORKS

Date: May 17, 1994

By: R. Huck

R. Huck
Vice President, Finance
and Chief Financial Officer

Date: May 17, 1994

By: T. F. Prime

T. F. Prime
Vice President and
Controller (Chief Accounting
Officer)

<TABLE>

THE STANLEY WORKS AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER SHARE
(dollars and shares in thousands
except per share amounts)

<CAPTION>

	FIRST QUARTER ENDED	
	APRIL 2	APRIL 3
	1994	1993
Earnings per common share:		
<S>	<C>	<C>
Weighted average shares outstanding	44,771	45,274
	=====	=====
Earnings before cumulative effect of accounting change	\$25,593	\$23,041
Cumulative effect of accounting change for postemployment benefits		(8,489)
	-----	-----
Net earnings	\$25,593	\$14,552
	=====	=====
Per share amounts:		
Before cumulative effect of accounting change	\$0.57	\$0.51
Cumulative effect of accounting change for postemployment benefits		(0.19)
	-----	-----
Net earnings	\$0.57	\$0.32
	=====	=====
PRIMARY:		
Weighted average shares outstanding	44,771	45,274
Dilutive common stock equivalents - based on the treasury stock method using average market price	646	731
	-----	-----
	45,417	46,005
	=====	=====
Per share amounts:		
Before cumulative effect of accounting change	\$0.56	\$0.50
Cumulative effect of accounting change for postemployment benefits		(0.18)
	-----	-----
Net earnings	\$0.56	\$0.32
	=====	=====
FULLY DILUTED:		
Weighted average shares outstanding	44,771	45,274

if higher than average market price	646	808
	-----	-----
	45,417	46,082
	=====	=====
Per share amounts:		
Before cumulative effect of accounting change	\$0.56	\$0.50
Cumulative effect of accounting change for postemployment benefits		(0.18)
	-----	-----
Net earnings	\$0.56	\$0.32
	=====	=====

<FN>

Note: This calculation is submitted in accordance with Regulation S-K item 601(b)(11) although not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because it results in dilution of less than 3%.

</TABLE>

<TABLE>

Exhibit 12

THE STANLEY WORKS AND SUBSIDIARIES
COMPUTATION OF EARNINGS TO FIXED CHARGES
(in Millions of Dollars)

<CAPTION>

	FIRST QUARTER	
	1994	1993
Earnings before income taxes and cumulative effect of accounting change for postemployment benefits	<C> \$41.3	<C> \$37.5
Add:		
Portion of rents representative of interest factor	\$2.9	\$3.1
Interest expense	8.0	8.1
Amortization of expense on long-term debt		0.1
Amortization of capitalized interest	0.1	0.1
	-----	-----
Income as adjusted	\$52.3	\$48.9
	=====	=====
Fixed charges:		
Interest expense	\$8.0	\$8.1
Amortization of expense on long-term debt		0.1
Capitalized interest		
Portion of rents representative of interest factor	2.9	3.1
	-----	-----
Fixed charges	\$10.9	\$11.3
	=====	=====
Ratio of earnings to fixed charges	4.80	4.33
	=====	=====

</TABLE>