

STANLEY BLACK & DECKER, INC.

Form 10-K

February 26, 2019

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 29, 2018

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 1-5224

STANLEY BLACK & DECKER, INC.

(Exact Name Of Registrant As Specified In Its Charter)

Connecticut 06-0548860  
(State Or Other Jurisdiction Of (I.R.S. Employer  
Incorporation Or Organization) Identification Number)

1000 Stanley Drive 06053  
New Britain, Connecticut  
(Address Of Principal Executive Offices) (Zip Code)

860-225-5111

(Registrant's Telephone Number)

Securities Registered Pursuant To Section 12(b) Of The Act:

Title Of Each Class	Name Of Each Exchange On Which Registered
Common Stock-\$2.50 Par Value per Share	New York Stock Exchange

Securities Registered Pursuant To Section 12(g) Of The Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

As of June 29, 2018, the aggregate market values of voting common equity held by non-affiliates of the registrant was \$20.3 billion based on the New York Stock Exchange closing price for such shares on that date. On February 15, 2019, the registrant had 151,356,989 shares of common stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2019 annual meeting of shareholders (the "2019 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

The 2019 Proxy Statement will be filed with the U.S. Securities Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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FORM 10-K

PART I

ITEM 1. BUSINESS

Stanley Black & Decker, Inc. ("the Company") was founded over 175 years ago, in 1843, by Frederick T. Stanley and incorporated in Connecticut in 1852. In March 2010, the Company completed a merger ("the Merger") with The Black & Decker Corporation ("Black & Decker"), a company founded by S. Duncan Black and Alonzo G. Decker and incorporated in Maryland in 1910. At that time, the Company changed its name from The Stanley Works ("Stanley") to Stanley Black & Decker, Inc.

The Company is a diversified global provider of hand tools, power tools and related accessories, engineered fastening systems and products, services and equipment for oil & gas and infrastructure applications, commercial electronic security and monitoring systems, healthcare solutions, and mechanical access solutions (primarily automatic doors), with 2018 consolidated annual revenues of \$14.0 billion. Approximately 55% of the Company's 2018 revenues were generated in the United States, with the remainder largely from Europe (22%), emerging markets (14%) and Canada (4%).

The Company continues to execute a growth and acquisition strategy that involves industry, geographic and customer diversification to foster sustainable revenue, earnings and cash flow growth. The Company remains focused on organic growth, including increasing its presence in emerging markets, and leveraging the Stanley Fulfillment System ("SFS 2.0"), which focuses on digital excellence, commercial excellence, breakthrough innovation, core SFS operating principles, and functional transformation. In addition, the Company continues to make strides towards achieving its 22/22 Vision of reaching \$22 billion in revenue by 2022 while expanding the margin rate, by becoming known as one of the world's leading innovators, delivering top-quartile financial performance and elevating its commitment to social responsibility.

Execution of the above strategy has resulted in approximately \$9.4 billion of acquisitions since 2002 (excluding the Black & Decker merger and pending acquisition of the International Equipment Solutions Attachments Group, as discussed below), which was enabled by strong cash flow generation and increased debt capacity. In recent years, the Company completed the acquisitions of Nelson Fastener Systems ("Nelson") for approximately \$430 million, the Tools business of Newell Brands ("Newell Tools") for approximately \$1.84 billion, and the Craftsman® brand from Sears Holdings Corporation ("Sears Holdings") for an estimated cash purchase price of approximately \$937 million on a discounted basis. The Nelson acquisition is complementary to the Company's product offerings, enhances its presence in the general industrial end markets, and expands its portfolio of highly-engineered fastening solutions. The Newell Tools acquisition, which included the industrial cutting, hand tool and power tool accessory brands IRWIN® and LENOX®, enhances the Company's position within the global tools & storage industry and broadens the Company's product offerings and solutions to customers and end users, particularly within power tool accessories. The Craftsman acquisition provides the Company with the rights to develop, manufacture and sell Craftsman®-branded products in non-Sears Holdings channels. Furthermore, the Company reached an agreement to acquire International Equipment Solutions Attachments Group ("IES Attachments"), a manufacturer of high quality, performance-driven heavy equipment attachment tools for off-highway applications. The acquisition will further diversify the Company's presence in the industrial markets, expand its portfolio of attachment solutions and provide a meaningful platform for continued growth. The acquisition is subject to customary closing conditions, including regulatory approvals, and is expected to close in the first half of 2019.

On January 2, 2019, the Company acquired a 20 percent interest in MTD Holdings Inc. ("MTD"), a privately held global manufacturer of outdoor power equipment, for \$234 million in cash. Under the terms of the agreement, the Company has the option to acquire the remaining 80 percent of MTD beginning on July 1, 2021. The investment in MTD increases the Company's presence in the \$20 billion global lawn and garden market and will allow the two companies to work together to pursue revenue and cost opportunities, improve operational efficiency, and introduce new and innovative products for professional and residential outdoor equipment customers, utilizing each company's

respective portfolios of strong brands.

In February 2017, the Company completed the sale of the majority of its mechanical security businesses, which included the commercial hardware brands of Best Access, phi Precision and GMT, for net proceeds of approximately \$717 million. This sale allowed the Company to deploy capital in a more accretive and growth-oriented manner. The Company has also divested several smaller businesses in recent years that did not fit into its long-term strategic objectives.

Refer to Note E, Acquisitions, and Note T, Divestitures, of the Notes to Consolidated Financial Statements in Item 8 for further discussion.

At December 29, 2018, the Company employed 60,767 people worldwide. The Company's principal executive office is located at 1000 Stanley Drive, New Britain, Connecticut 06053 and its telephone number is (860) 225-5111.

## Description of the Business

The Company's operations are classified into three reportable business segments, which also represent its operating segments: Tools & Storage, Industrial and Security. All segments have significant international operations and are exposed to translational and transactional impacts from fluctuations in foreign currency exchange rates.

Additional information regarding the Company's business segments and geographic areas is incorporated herein by reference to the material captioned "Business Segment Results" in Item 7 and Note P, Business Segments and Geographic Areas, of the Notes to Consolidated Financial Statements in Item 8.

### Tools & Storage

The Tools & Storage segment is comprised of the Power Tools and Equipment ("PTE") and Hand Tools, Accessories & Storage ("HTAS") businesses. Annual revenues in the Tools & Storage segment were \$9.8 billion in 2018, representing 70% of the Company's total revenues.

The PTE business includes both professional and consumer products. Professional products include professional grade corded and cordless electric power tools and equipment including drills, impact wrenches and drivers, grinders, saws, routers and sanders, as well as pneumatic tools and fasteners including nail guns, nails, staplers and staples, concrete and masonry anchors. Consumer products include corded and cordless electric power tools sold primarily under the BLACK+DECKER® brand, lawn and garden products, including hedge trimmers, string trimmers, lawn mowers, edgers and related accessories, and home products such as hand-held vacuums, paint tools and cleaning appliances. The HTAS business sells hand tools, power tool accessories and storage products. Hand tools include measuring, leveling and layout tools, planes, hammers, demolition tools, clamps, vises, knives, saws, chisels and industrial and automotive tools. Power tool accessories include drill bits, screwdriver bits, router bits, abrasives, saw blades and threading products. Storage products include tool boxes, sawhorses, medical cabinets and engineered storage solution products.

The segment sells its products to professional end users, distributors, retail consumers and industrial customers in a wide variety of industries and geographies. The majority of sales are distributed through retailers, including home centers, mass merchants, hardware stores, and retail lumber yards, as well as third-party distributors and a direct sales force.

### Industrial

The Industrial segment is comprised of the Engineered Fastening and Infrastructure businesses. Annual revenues in the Industrial segment were \$2.2 billion in 2018, representing 16% of the Company's total revenues.

The Engineered Fastening business primarily sells engineered fastening products and systems designed for specific applications. The product lines include blind rivets and tools, blind inserts and tools, drawn arc weld studs and systems, engineered plastic and mechanical fasteners, self-piercing riveting systems and precision nut running systems, micro fasteners, and high-strength structural fasteners. The business sells to customers in the automotive, manufacturing, electronics, construction, and aerospace industries, amongst others, and its products are distributed through direct sales forces and, to a lesser extent, third-party distributors.

The Infrastructure business consists of the Oil & Gas and Hydraulics businesses. The Oil & Gas business sells and rents custom pipe handling, joint welding and coating equipment used in the construction of large and small diameter pipelines, and provides pipeline inspection services. The Hydraulics business sells hydraulic tools and accessories. The Infrastructure businesses sell to the oil and natural gas pipeline industry and other industrial customers. The products and services are primarily distributed through a direct sales force and, to a lesser extent, third-party distributors.

### Security

The Security segment is comprised of the Convergent Security Solutions ("CSS") and Mechanical Access Solutions ("MAS") businesses. Annual revenues in the Security segment were \$2.0 billion in 2018, representing 14% of the Company's total revenues.

The CSS business designs, supplies and installs commercial electronic security systems and provides electronic security services, including alarm monitoring, video surveillance, fire alarm monitoring, systems integration and system maintenance. Purchasers of these systems typically contract for ongoing security systems monitoring and maintenance at the time of initial equipment installation. The business also sells healthcare solutions, which include

asset tracking, infant protection, pediatric protection, patient protection, wander management, fall management, and emergency call products. The CSS business sells to consumers, retailers, educational, financial and healthcare institutions, as well as commercial, governmental and industrial



customers. The MAS business primarily sells automatic doors to commercial customers. Products for both businesses are sold predominantly on a direct sales basis.

#### Other Information

##### Competition

The Company competes on the basis of its reputation for product quality, its well-known brands, its commitment to customer service, its strong customer relationships, the breadth of its product lines, its innovative products and customer value propositions.

The Company encounters active competition in the Tools & Storage and Industrial segments from both larger and smaller companies that offer the same or similar products and services. Certain large customers offer private label brands (“house brands”) that compete across a wider spectrum of the Company’s Tools & Storage segment product offerings. Competition in the Security segment is generally fragmented via both large international players and regional companies. Competition tends to be based primarily on price and the quality and comprehensiveness of services offered to customers.

##### Major Customers

A significant portion of the Company’s Tools & Storage products are sold to home centers and mass merchants in the U.S. and Europe. A consolidation of retailers both in North America and abroad has occurred over time. While this consolidation and the domestic and international expansion of these large retailers have provided the Company with opportunities for growth, the increasing size and importance of individual customers creates a certain degree of exposure to potential sales volume loss. One customer, Lowe's, accounted for approximately 12% and 11% of the Company's consolidated net sales in 2018 and 2017, respectively. No other customer exceeded 10% of consolidated sales in 2018, 2017 or 2016.

##### Working Capital

The Company continues to practice the five operating principles encompassed by Core SFS, one component of the SFS 2.0 operating system, which work in concert: sales and operations planning (“S&OP”), operational lean, complexity reduction, global supply management, and order-to-cash excellence. The Company develops standardized business processes and system platforms to reduce costs and provide scalability. Core SFS / Industry 4.0 has been instrumental in reducing working capital and creating significant opportunities to generate incremental free cash flow (defined as cash flow from operations less capital and software expenditures). Working capital turns were 8.8 at the end of 2018, a slight decrease from 2017, reflecting higher levels of inventory associated with the Craftsman rollout as well as impacts from integrating recent acquisitions. The Company plans to continue leveraging Core SFS / Industry 4.0 to generate ongoing improvements, both in the existing business and future acquisitions, in working capital turns, cycle times, complexity reduction and customer service levels, with a long-term goal of sustaining 10+ working capital turns.

##### Raw Materials

The Company’s products are manufactured using resins, ferrous and non-ferrous metals including, but not limited to, steel, zinc, copper, brass, aluminum and nickel. The Company also purchases components such as batteries, motors, and electronic components to use in manufacturing and assembly operations along with resin-based molded parts. The raw materials required are procured globally and generally available from multiple sources at competitive prices. As part of the Company's Enterprise Risk Management, the Company has implemented a supplier risk mitigation strategy in order to identify and address any potential supply disruption associated with commodities, components, finished goods and critical services. The Company does not anticipate difficulties in obtaining supplies for any raw materials or energy used in its production processes.

##### Backlog

Due to short order cycles and rapid inventory turnover primarily in the Company's Tools & Storage segment, backlog is generally not considered a significant indicator of future performance. At February 2, 2019, the Company had approximately \$1,001 million in unfilled orders, which mainly related to the Engineered Fastening and Security businesses. Substantially all of these orders are reasonably expected to be filled within the current fiscal year. As of February 3, 2018 and February 4, 2017, unfilled orders amounted to \$929 million and \$838 million, respectively.

Patents and Trademarks

No business segment is solely dependent, to any significant degree, on patents, licenses, franchises or concessions, and the loss of one or several of these patents, licenses, franchises or concessions would not have a material adverse effect on any of the Company's businesses. The Company owns numerous patents, none of which individually is material to the Company's

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operations as a whole. These patents expire at various times over the next 20 years. The Company holds licenses, franchises and concessions, none of which individually or in the aggregate are material to the Company's operations as a whole. These licenses, franchises and concessions vary in duration, but generally run from one to 40 years.

The Company has numerous trademarks that are used in its businesses worldwide. In the Tools & Storage segment, significant trademarks include STANLEY®, BLACK+DECKER®, DEWALT®, FLEXVOLT®, IRWIN®, LENOX®, CRAFTSMAN®, PORTER-CABLE®, BOSTITCH®, FATMAX®, Powers®, Guaranteed Tough®, MAC TOOLS®, PROTO®, Vidmar®, FACOM®, USAG™, LISTA® and the yellow & black color scheme for power tools and accessories. Significant trademarks in the Industrial segment include STANLEY®, CRC®, NELSON®, LaBounty®, Dubuis®, CribMaster®, Expert®, SIDCHROME™, POP®, Avdel®, HeliCoil®, Tucker®, NPR®, Spiralock® and STANLEY® Assembly Technologies. The Security segment includes significant trademarks such as STANLEY®, Blick™, HSM®, SONITROL®, Stanley Access Technologies™, AeroScout®, Hugs®, WanderGuard®, Roam Alert®, MyCall®, Arial® and Bed-Check®. The terms of these trademarks typically vary from 10 to 20 years, with most trademarks being renewable indefinitely for like terms.

#### Environmental Regulations

The Company is subject to various environmental laws and regulations in the U.S. and foreign countries where it has operations. In the normal course of business, the Company is involved in various legal proceedings relating to environmental issues. 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. In the event that no amount in the range of probable loss is considered most likely, the minimum loss in the range is accrued. The amount of liability recorded is based on an evaluation of currently available facts with respect to each individual site and includes such factors as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. The liabilities recorded do not take into account any claims for recoveries from insurance or third parties. As assessments and remediation progress at individual sites, the amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. As of December 29, 2018 and December 30, 2017, the Company had reserves of \$246.6 million and \$176.1 million, respectively, for remediation activities associated with Company-owned properties, as well as for Superfund sites, for losses that are probable and estimable. Of the 2018 amount, \$58.1 million is classified as current and \$188.5 million as long-term, which is expected to be paid over the estimated remediation period. As of December 29, 2018, the Company has recorded \$12.4 million in other assets related to funding by the Environmental Protection Agency ("EPA") and monies received have been placed in trust in accordance with the Consent Decree associated with the West Coast Loading Corporation ("WCLC") proceedings, as further discussed in Note S, Contingencies, of the Notes to Consolidated Financial Statements in Item 8. Accordingly, the Company's cash obligation as of December 29, 2018 associated with the aforementioned remediation activities is \$234.2 million. The range of environmental remediation costs that is reasonably possible is \$214.0 million to \$344.3 million, which is subject to change in the near term. The Company may be liable for environmental remediation of sites it no longer owns. Liabilities have been recorded on those sites in accordance with policy.

The amount recorded for identified contingent liabilities is based on estimates. Amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. Actual costs to be incurred in future periods may vary from the estimates, given the inherent uncertainties in evaluating certain exposures. Subject to the imprecision in estimating future contingent liability costs, the Company does not expect that any sum it may have to pay in connection with these matters in excess of the amounts recorded will have a materially adverse effect on its financial position, results of operations or liquidity. Additional information regarding environmental matters is available in Note S, Contingencies, of the Notes to Consolidated Financial Statements in Item 8.

#### Employees

At December 29, 2018, the Company had 60,767 employees, 16,801 of whom were employed in the U.S. Employees in the U.S. totaling 1,433 are covered by collective bargaining agreements negotiated with 27 different local labor unions who are, in turn, affiliated with approximately 7 different international labor unions. The majority of the

Company's hourly-paid and weekly-paid employees outside the U.S. are not covered by collective bargaining agreements. The Company's labor agreements in the U.S. expire between 2019 and 2021. There have been no significant interruptions of the Company's operations in recent years due to labor disputes. The Company believes it has a good relationship with its employees.

#### Research and Development Costs

Research and development costs, which are classified in Selling, general and administrative ("SG&A"), were \$275.8 million, \$252.3 million and \$204.4 million for fiscal years 2018, 2017 and 2016, respectively. The increases in 2018 and 2017 reflect the Company's continued focus on becoming known as one of the world's greatest innovators and its commitment to continue generating new core and breakthrough innovations.

Available Information

The Company's website is located at <http://www.stanleyblackanddecker.com>. This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to the Company's website. The information on the Company's website is not, and is not intended to be, part of this Form 10-K and is not incorporated into this report by reference. The Company makes its Forms 10-K, 10-Q, 8-K and amendments to each available free of charge on its website as soon as reasonably practicable after filing them with, or furnishing them to, the U.S. Securities and Exchange Commission ("SEC"). Also available on the Company's website is the Company's Code of Ethics for its CEO and senior financial officers.

## ITEM 1A. RISK FACTORS

The Company's business, operations and financial condition are subject to various risks and uncertainties. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including those risks set forth under the heading entitled "Cautionary Statements Under the Private Securities Litigation Reform Act of 1995" in Item 7, and in other documents that the Company files with the SEC, before making any investment decision with respect to its securities. If any of the risks or uncertainties actually occur or develop, the Company's business, financial condition, results of operations and future growth prospects could change. Under these circumstances, the trading prices of the Company's securities could decline, and you could lose all or part of your investment in the Company's securities.

Changes in customer preferences, the inability to maintain mutually beneficial relationships with large customers, inventory reductions by customers, and the inability to penetrate new channels of distribution could adversely affect the Company's business.

The Company has certain significant customers, particularly home centers and major retailers. The two largest customers comprised approximately 22% of net sales, with U.S. and international mass merchants and home centers collectively comprising approximately 37% of net sales. The loss or material reduction of business, the lack of success of sales initiatives, or changes in customer preferences or loyalties for the Company's products, related to any such significant customer could have a material adverse impact on the Company's results of operations and cash flows. In addition, the Company's major customers are volume purchasers, a few of which are much larger than the Company and have strong bargaining power with suppliers. This limits the ability to recover cost increases through higher selling prices. Furthermore, unanticipated inventory adjustments by these customers can have a negative impact on net sales.

If customers in the Convergent Security Solutions ("CSS") business are dissatisfied with services and switch to competitive services, or disconnect for other reasons such as preference for digital technology products or other technology enhancements not then offered by CSS, the Company's attrition rates may increase. In periods of increasing attrition rates, recurring revenue and results of operations may be materially adversely affected. The risk is more pronounced in times of economic uncertainty, as customers may reduce amounts spent on the products and services the Company provides.

In times of tough economic conditions, the Company has experienced significant distributor inventory corrections reflecting de-stocking of the supply chain associated with difficult credit markets. Such distributor de-stocking exacerbated sales volume declines pertaining to weak end user demand and the broader economic recession. The Company's results may be adversely impacted in future periods by such customer inventory adjustments. Further, the inability to continue to penetrate new channels of distribution may have a negative impact on the Company's future results.

The Company faces active global competition and if it does not compete effectively, its business may suffer. The Company faces active competition and resulting pricing pressures. The Company's products compete on the basis of, among other things, its reputation for product quality, its well-known brands, price, innovation and customer service capabilities. The Company competes with both larger and smaller companies that offer the same or similar products and services or that produce different products appropriate for the same uses. These companies are often located in countries such as China, Taiwan and India where labor and other production costs are substantially lower than in the U.S., Canada and Western Europe. Also, certain large customers offer house brands that compete with some of the Company's product offerings as a lower-cost alternative. To remain profitable and defend market share, the Company must maintain a competitive cost structure, develop new products and services, lead product innovation, respond to competitor innovations and enhance its existing products in a timely manner. The Company may not be able to compete effectively on all of these fronts and with all of its competitors, and the failure to do so could have a material adverse effect on its sales and profit margins.

Core SFS / Industry 4.0 is a continuous operational improvement process applied to many aspects of the Company's business such as procurement, quality in manufacturing, maximizing customer fill rates, integrating acquisitions and other key business processes. In the event the Company is not successful in effectively applying the Core SFS principles to its key business processes, including those of acquired businesses, its ability to compete and future

earnings could be adversely affected.

In addition, the Company may have to reduce prices on its products and services, or make other concessions, to stay competitive and retain market share. Price reductions taken by the Company in response to customer and competitive pressures, as well as price reductions and promotional actions taken to drive demand that may not result in anticipated sales levels, could also negatively impact its business. The Company engages in restructuring actions, sometimes entailing shifts of production to low-cost countries, as part of its efforts to maintain a competitive cost structure. If the Company does not execute restructuring actions well, its ability to meet customer demand may decline, or earnings may otherwise be adversely impacted. Similarly, if

such efforts to reform the cost structure are delayed relative to competitors or other market factors, the Company may lose market share and profits.

Customer consolidation could have a material adverse effect on the Company's business.

A significant portion of the Company's products are sold through home centers and mass merchant distribution channels in the U.S. and Europe. A consolidation of retailers in both North America and abroad has occurred over time and the increasing size and importance of individual customers creates risk of exposure to potential volume loss. The loss of certain larger home centers as customers would have a material adverse effect on the Company's business until either such customers were replaced or the Company made the necessary adjustments to compensate for the loss of business.

Low demand for new products and the inability to develop and introduce new products at favorable margins could adversely impact the Company's performance and prospects for future growth.

The Company's competitive advantage is due in part to its ability to develop and introduce new products in a timely manner at favorable margins. The uncertainties associated with developing and introducing new products, such as market demand and costs of development and production, may impede the successful development and introduction of new products on a consistent basis. Introduction of new technology may result in higher costs to the Company than that of the technology replaced. That increase in costs, which may continue indefinitely or until increased demand and greater availability in the sources of the new technology drive down its cost, could adversely affect the Company's results of operations. Market acceptance of the new products introduced in recent years and scheduled for introduction in future years may not meet sales expectations due to various factors, such as the failure to accurately predict market demand, end-user preferences, evolving industry standards, or the emergence of new or disruptive technologies.

Moreover, the ultimate success and profitability of the new products may depend on the Company's ability to resolve technical and technological challenges in a timely and cost-effective manner, and to achieve manufacturing efficiencies. The Company's investments in productive capacity and commitments to fund advertising and product promotions in connection with these new products could erode profits if those expectations are not met.

The Company's brands are important assets of its businesses and violation of its trademark rights by imitators, or the failure of its licensees or vendors to comply with the Company's product quality, manufacturing requirements, marketing standards, and other requirements could negatively impact revenues and brand reputation.

The Company's trademarks have a reputation for quality and value and are important to the Company's success and competitive position. Unauthorized use of the Company's trademark rights may not only erode sales of the Company's products, but may also cause significant damage to its brand name and reputation, interfere with its ability to effectively represent the Company to its customers, contractors, suppliers, and/or licensees, and increase litigation costs. Similarly, failure by licensees or vendors to adhere to the Company's standards of quality and other contractual requirements could result in loss of revenue, increased litigation, and/or damage to the Company's reputation and business. There can be no assurance that the Company's ongoing efforts to protect its brand and trademark rights and ensure compliance with its licensing and vendor agreements will prevent all violations.

Successful sales and marketing efforts depend on the Company's ability to recruit and retain qualified employees.

The success of the Company's efforts to grow its business depends on the contributions and abilities of key executives, its sales force and other personnel, including the ability of its sales force to adapt to any changes made in the sales organization and achieve adequate customer coverage. The Company must therefore continue to recruit, retain and motivate management, sales and other personnel sufficiently to maintain its current business and support its projected growth. A shortage of these key employees might jeopardize the Company's ability to implement its growth strategy. The Company has significant operations outside of the United States, which are subject to political, legal, economic and other risks arising from operating outside of the United States.

The Company generates a significant portion of its total revenue outside of the United States. Business operations outside of the United States are subject to political, economic and other risks inherent in operating in certain countries, such as:

- the difficulty of enforcing agreements and protecting assets through legal systems outside the U.S.;



managing widespread operations and enforcing internal policies and procedures such as compliance with U.S. and foreign anti-bribery and anti-corruption regulations;  
trade protection measures and import or export licensing requirements including those related to the U.S.'s relationship with China;  
the application of certain labor regulations outside of the United States, including data privacy;

- compliance with a wide variety of non-U.S. laws and regulations;
- changes in the general political and economic conditions in the countries where the Company operates, particularly in emerging markets;
- the threat of nationalization and expropriation;
- increased costs and risks of doing business in a wide variety of jurisdictions;
- government controls limiting importation of goods;
- government controls limiting payments to suppliers for imported goods;
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