VISTEON CORP
Form 10-Q
August 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
____
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013,
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 001-15827
VISTEON CORPORATION
(Exact name of registrant as specified in its charter)

State of Delaware	38-3519512
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Village Center Drive, Van Buren Township, Michigan	48111
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (800)-VISTEON
Not applicable
(Former name, former address and former fiscal year, if changed since last report)
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 ü No__
Indicate by check mark whether the registrant: has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 ü No __
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.
Large accelerated filer ü Accelerated filer __ Non-accelerated filer __ 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 __ No ü
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ü No__
As of July 31, 2013, the registrant had outstanding 50,044,729 shares of common stock.
Exhibit index located on page number 51.

INDEX

Part I - Financial Information	
Item 1 - Consolidated Financial Statements	1
Consolidated Statements of Comprehensive Income (Unaudited)	1
Consolidated Balance Sheets (Unaudited)	2
Consolidated Statements of Cash Flows (Unaudited)	3
Notes to Consolidated Financial Statements (Unaudited)	4
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	47
Item 4 - Controls and Procedures	48
Part II - Other Information	
Item 1 - Legal Proceedings	49
Item 1A - Risk Factors	49
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	49
Item 6 - Exhibits	49
Signature	49
Exhibit Index	51

Table of Contents

PART I
FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Millions Except Per Share Amounts)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Sales	$1,892	$1,693	$3,748	$3,410
Cost of sales	1,707	1,565	3,409	3,148
Gross margin	185	128	339	262
Selling, general and administrative expenses	91	87	177	178
Equity in net income of non-consolidated affiliates	42	103	86	145
Interest expense	11	10	24	22
Interest income	2	4	5	7
Restructuring and other expenses	2	11	38	74
Income from continuing operations before income taxes	125	127	191	140
Provision for income taxes	39	42	21	69
Income from continuing operations	86	85	170	71
(Loss) income from discontinued operations, net of tax	—	(1)	—	2
Net income	86	84	170	73
Net income attributable to non-controlling interests	21	9	36	27
Net income attributable to Visteon Corporation	$65	$75	$134	$46
Basic earnings (loss) per share:				
Continuing operations	$1.30	$1.43	$2.64	$0.83
Discontinued operations	—	(0.02)	—	0.04
Basic earnings per share attributable to Visteon Corporation	$1.30	$1.41	$2.64	$0.87
Diluted earnings (loss) per share:				
Continuing operations	$1.29	$1.42	$2.61	$0.82
Discontinued operations	—	(0.02)	—	0.04
Diluted earnings per share attributable to Visteon Corporation	$1.29	$1.40	$2.61	$0.86
Comprehensive income:				
Comprehensive income	$50	$31	$90	$67
Comprehensive income attributable to Visteon Corporation	$38	$29	$79	$40

See accompanying notes to the consolidated financial statements.

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)
(Unaudited)

	June 30 2013	December 31 2012
ASSETS		
Cash and equivalents	$983	$825
Restricted cash	25	20
Accounts receivable, net	1,206	1,162
Inventories	415	385
Other current assets	313	271
Total current assets	2,942	2,663
Property and equipment, net	1,274	1,326
Equity in net assets of non-consolidated affiliates	790	756
Intangible assets, net	298	332
Other non-current assets	118	79
Total assets	$5,422	$5,156
LIABILITIES AND EQUITY		
Short-term debt, including current portion of long-term debt	$129	$96
Accounts payable	1,174	1,027
Accrued employee liabilities	189	175
Other current liabilities	258	254
Total current liabilities	1,750	1,552
Long-term debt	670	473
Employee benefits	559	571
Deferred tax liabilities	180	181
Other non-current liabilities	166	238
Stockholders' equity:		
Preferred stock (par value $0.01, 50 million shares authorized, none outstanding at June 30, 2013 and December 31, 2012)	—	—
Common stock (par value $0.01, 250 million shares authorized, 54 million shares issued, 50 million and 52 million shares outstanding at June 30, 2013 and December 31, 2012, respectively)	1	1
Stock warrants	6	10
Additional paid-in capital	1,287	1,269
Retained earnings	400	266
Accumulated other comprehensive loss	(145)	(90)
Treasury stock	(197)	(71)
Total Visteon Corporation stockholders' equity	1,352	1,385
Non-controlling interests	745	756
Total equity	2,097	2,141
Total liabilities and equity	$5,422	$5,156

See accompanying notes to the consolidated financial statements.

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Millions)
(Unaudited)

	Six Months Ended June 30	
	2013	2012
OPERATING		
Net income	$170	$73
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	132	132
Equity in net income of non-consolidated affiliates, net of dividends remitted	(82)	(134)
Stock-based compensation	11	13
Other non-cash items	(5)	29
Changes in assets and liabilities:		
Accounts receivable	(87)	(91)
Inventories	(43)	(32)
Accounts payable	183	64
Accrued income taxes	(56)	3
Other assets and other liabilities	(65)	(50)
Net cash provided from operating activities	158	7
INVESTING		
Capital expenditures	(114)	(102)
Proceeds from business divestitures and asset sales	39	80
Other	—	(2)
Net cash used by investing activities	(75)	(24)
FINANCING		
Proceeds from issuance of debt, net of issuance costs	204	2
Short-term debt, net	43	4
Principal payments on debt	(5)	(4)
Payments to repurchase common stock	(125)	—
Dividends paid to non-controlling interests	(22)	(22)
Other	1	—
Net cash provided from (used by) financing activities	96	(20)
Effect of exchange rate changes on cash and equivalents	(21)	(5)
Net increase (decrease) in cash and equivalents	158	(42)
Cash and equivalents at beginning of period	825	723
Cash and equivalents at end of period	$983	$681

See accompanying notes to the consolidated financial statements.

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Basis of Presentation

Description of Business: Visteon Corporation (the “Company” or “Visteon”) is a supplier of climate, interiors and electronics systems, modules and components to global automotive original equipment manufacturers (“OEMs”). Headquartered in Van Buren Township, Michigan, Visteon has a workforce of approximately 23,000 employees and a network of manufacturing operations, technical centers and joint ventures in every major geographic region of the world.

Interim Financial Statements: The unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. These interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments, except as otherwise disclosed) that management believes are necessary for a fair presentation of the results of operations, financial position and cash flows of the Company for the interim periods presented. Interim results are not necessarily indicative of full-year results.

Use of Estimates: The preparation of the financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect amounts reported herein. Management believes that such estimates, judgments and assumptions are reasonable and appropriate. However, due to the inherent uncertainty involved, actual results may differ from those provided in the Company's consolidated financial statements.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current period presentation.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and all subsidiaries that are more than 50% owned and over which the Company exercises control. Investments in affiliates of greater than 20% and for which the Company exercises significant influence but does not exercise control are accounted for using the equity method.

Discontinued Operations: On August 1, 2012, the Company completed the sale of its Lighting operations for proceeds of approximately $70 million. The Company recorded impairment charges principally related to property and equipment of approximately $11 million and $13 million in the three-month and six-month periods ended June 30, 2012. The results of operations of the Lighting business have been classified to (Loss) income from discontinued operations, net of tax in the Consolidated Statements of Comprehensive Income for the three-month and six-month periods ended June 30, 2012. Discontinued operations are summarized as follows:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
	(Dollars in Millions)	
Sales	$126	$265
Cost of sales	113	236
Gross margin	13	29
Selling, general and administrative expenses	3	6
Asset impairments	11	13
Interest expense	1	1
Other expense	1	3
(Loss) income from discontinued operations before income taxes	(3)	6

(Benefit) provision for income taxes	(2)	4
(Loss) Income from discontinued operations, net of tax	$(1)	$2

Restricted Cash: Restricted cash represents amounts designated for uses other than current operations and includes $10 million collateral for the Letter of Credit Facility with US Bank National Association, and $15 million related to cash collateral for other corporate purposes at June 30, 2013.

New Accounting Pronouncements: In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2013-2, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". This ASU requires companies to present, either in a note or parenthetically on the face of the financial statements, the effect of the amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification.

Table of Contents

This ASU is effective for interim and annual reporting periods beginning after December 15, 2012. The Company adopted these new disclosure requirements with effect from January 1, 2013.

In March 2013, the FASB issued ASU 2013-5, "Foreign Currency Matters". The amendments in ASU 2013-5 resolve the diversity in practice about whether current literature applies to the release of the cumulative translation adjustment into net income when a parent either sells a part of all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, the amendments in ASU 2013-5 resolve the diversity in practice for the treatment of business combinations achieved in stages involving a foreign entity. ASU 2013-5 is effective for interim and annual reporting periods beginning after December 15, 2013. The Company is currently evaluating the impact of ASU 2013-5 and does not expect this guidance to have a material impact on its consolidated financial statements.

NOTE 2. Non-Consolidated Affiliates

The Company recorded equity in net income of non-consolidated affiliates of $42 million and $103 million for the three-month periods ended June 30, 2013 and 2012, respectively. For the six-month periods ended June 30, 2013 and 2012, the Company recorded $86 million and $145 million, respectively. Equity in net income of non-consolidated affiliates for the three and six month periods ended June 30, 2012 includes $63 million representing Visteon's equity interest in a non-cash gain recorded by Yanfeng Visteon Automotive Trim Systems Co., Ltd. ("Yanfeng"), a 50% owned non-consolidated affiliate of the Company. The gain resulted from the excess of fair value over carrying value of a former equity investee of Yanfeng that was consolidated effective June 1, 2012 pursuant to changes in the underlying joint venture agreement. The fair value was based on estimates of enterprise value determined using certain financial analysis methodologies including the discounted cash flow analysis. The fair value measurement is classified within level 3 of the fair value hierarchy.

The Company had $790 million and $756 million of equity in the net assets of non-consolidated affiliates at June 30, 2013 and December 31, 2012, respectively. The following table presents summarized financial data for the Company’s non-consolidated affiliates, including Yanfeng, which is considered a significant non-consolidated affiliate. Summarized financial information reflecting 100% of the operating results of the Company's equity investees are provided below:

	Three Months Ended June 30					
	Net Sales		Gross Margin		Net Income	
	2013	2012	2013	2012	2013	2012
	(Dollars in Millions)					
Yanfeng	$1,920	$991	$296	$178	$57	$185
All other	390	467	56	52	30	27
	$2,310	$1,458	$352	$230	$87	$212
	Six Months Ended June 30					
	Net Sales		Gross Margin		Net Income	
	2013	2012	2013	2012	2013	2012
	(Dollars in Millions)					
Yanfeng	$3,736	$1,784	$569	$300	$126	$257
All other	776	880	82	94	52	44
	$4,512	$2,664	$651	$394	$178	$301

Yanfeng sales and gross margin for the three months ended June 30, 2013 include approximately $527 million and $91 million, respectively, related to activity of a former equity investee that was consolidated effective June 1, 2012. Yanfeng sales and gross margin for the six months ended June 30, 2013 include approximately $1,283 million and $222 million, respectively, related to activity of the above-mentioned former equity investee. Yanfeng net income for

the three and six months ended June 30, 2012 includes approximately $130 million associated with a non-cash gain on the consolidation of above-mentioned former equity investee.

The Company monitors its investments in the net assets of non-consolidated affiliates for indicators of other-than-temporary declines in value on an ongoing basis. If the Company determines that such a decline has occurred, an impairment loss is recorded, which is measured as the difference between carrying value and fair value. During the fourth quarter of 2012, the Company determined that an other-than-temporary decline in the value of its investment in Visteon TYC Corporation ("VTYC") had occurred

5

Table of Contents

based on anticipated sale transaction proceeds and recorded an impairment of $5 million. In January 2013, the Company completed the sale of its 50% equity interest in VTYC for proceeds of approximately $17 million and no subsequent gain or loss was recorded on the sale.

NOTE 3. Restructuring and Other Expenses

Restructuring and other expenses consist of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in Millions)			
Restructuring expenses	$3	$1	$23	$42
Loss on asset contribution	—	—	—	14
Transformation costs	4	10	20	18
Gain on sale of equity interest	(5)	—	(5)	—
	$2	$11	$38	$74

Restructuring Activities

During the three and six month periods ended June 30, 2013, the Company recorded $3 million and $23 million, respectively, of restructuring expenses under a previously announced $100 million program designed to reduce fixed costs and to improve operational efficiency. Costs recorded during the three and six month periods ended June 30, 2013 were related to employee severance and termination benefits for approximately 40 and 180 employees, respectively.

During 2012, the Company recorded $41 million of restructuring expenses, including $36 million for employee severance and termination benefits and $5 million of other exit costs in connection with the closure of the Cadiz Electronics operation in El Puerto de Santa Maria, Spain. Additional employee severance and termination benefits of approximately $4 million were recorded during 2012 including $3 million associated with the separation of approximately 250 employees at a South American Interiors facility and $1 million associated with 40 voluntary employee separations associated with a Climate restructuring action announced in the fourth quarter of 2011.

At June 30, 2013 and December 31, 2012, restructuring liabilities of $35 million and $39 million, respectively, are classified as other current liabilities in the consolidated balance sheets. The following is a summary of the Company's restructuring reserves and related activity for the six months ended June 30, 2013.

	Interiors	Climate	Electronics	Corporate	Total
	(Dollars in Millions)				
December 31, 2012	$34	$1	$1	$3	$39
Expenses	1	14	—	6	21
Reversals	—	—	(1)	—	(1)
Exchange	(2)	—	—	—	(2)
Utilization	(1)	(11)	—	(3)	(15)
March 31, 2013	32	4	—	6	42
Expenses	1	2	—	—	3
Exchange	1	—	—	—	1
Utilization	(3)	(4)	—	(4)	(11)
June 30, 2013	$31	$2	$—	$2	$35

The Company anticipates that the activities associated with these reserves will be substantially completed by the end of 2013. Utilization is principally related to payments for severance and other employee termination benefits. Given

the economically-sensitive and highly competitive nature of the automotive industry, the Company continues to closely monitor current market factors and industry trends taking action as necessary, including but not limited to, additional restructuring actions. However, there can be no assurance that any such actions will be sufficient to fully offset the impact of adverse factors on the Company or its results of operations, financial position and cash flows.

Table of Contents

Loss on Asset Contribution

In connection with agreements reached with the labor union and the Spanish government for the closure of the Cadiz Electronics operation, the Company transfered land, building and machinery with a net book value of approximately $14 million to the Spanish government for the benefit of the former Cadiz Electronics employees and the El Puerto de Santa Maria, Spain community.

Transformation Activities

Business transformation costs of $4 million and $20 million were incurred during the three-month and six-month periods ended June 30, 2013 respectively, related to financial and advisory fees associated with continued execution of the Company's comprehensive value creation plan, including the following activities.

- Climate consolidation - During the first quarter of 2013, Halla Climate Control Corporation ("Halla") purchased certain subsidiaries and intellectual property of Visteon's global climate business for approximately $410 million. With effect from February 1, 2013, this combined climate business has been operating under the name of Halla Visteon Climate Control ("HVCC"). HVCC is majority-owned by Visteon and headquartered in South Korea.
- Interiors strategy - The Company continues to explore alternatives for its Interiors business including, but not limited to, divestiture, partnership or alliance. While the Company views Interiors as a non-core business, it continues to make commitments to this business and intends to divest in the future only under acceptable terms and conditions. In connection with the preparation of the June 30, 2013 financial statements, the Company determined that an indicator of impairment existed in relation to the net assets of its Interiors business, which approximated $180 million as of June 30, 2013. Accordingly, the Company performed a recoverability test utilizing a probability weighted analysis of cash flows associated with continuing to run and operate the Interiors business and estimated cash flows associated with the potential sale of the Interiors business. As a result of the analysis, the Company concluded that the assets were not recoverable. However, no impairment was recorded as of June 30, 2013 as the fair value of the underlying assets were determined to be in excess of the respective carrying value. To the extent that a sale transaction becomes more likely to occur in future periods an impairment charge may be required and such charge could be material. As of June 30, 2013 the Company did not meet the specific criteria necessary for the Interiors assets to be considered held for sale.
- Electronics optimization - The Company continued to explore opportunities to optimize the size and scale of its Electronics business with a specific focus on cockpit electronic products.
- Cost reduction program - In November 2012 the Company announced a $100 million restructuring program designed to reduce fixed costs and to improve operational efficiency by addressing certain under-performing operations. During the second quarter of 2013, the Company recorded an additional $3 million associated with this program for total inception to date expense under the program of $58 million. The Company anticipates recording additional restructuring charges related to this program in future periods as underlying plans are finalized.

Gain on Sale of Equity Interest

In June 2013, the Company completed the sale of its 20% equity interest in Dongfeng Visteon Automotive Trim Systems Co., Ltd. ("Dongfeng") for proceeds of approximately $20 million. Dongfeng is an interiors joint venture based in China with 2012 revenue of $190 million. The Company recognized a gain of approximately $5 million during the three-months ended June 30, 2013.

NOTE 4. Inventories, net

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

	June 30	December 31

	2013	2012
	(Dollars in Millions)	
Raw materials	$167	$153
Work-in-process	182	174
Finished products	89	78
	438	405
Valuation reserves	(23)	(20)
	$415	$385

7

Table of Contents

NOTE 5. Property and Equipment

Property and equipment, net consists of the following:

	June 30 2013	December 31 2012
	(Dollars in Millions)	
Land	$153	$161
Buildings and improvements	266	269
Machinery, equipment and other	1,166	1,137
Construction in progress	99	100
Total property and equipment	1,684	1,667
Accumulated depreciation	(483)	(421)
	1,201	1,246
Product tooling, net of amortization	73	80
Property and equipment, net	$1,274	$1,326

Property and equipment is depreciated principally using the straight-line method of depreciation over estimated useful lives. Generally, buildings and improvements are depreciated over a 40-year estimated useful life and machinery, equipment and other assets are depreciated over estimated useful lives ranging from 3 to 15 years. Product tooling is amortized using the straight-line method over the estimated life of the tool, generally not exceeding 6 years. Depreciation and amortization expenses are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in Millions)			
Depreciation	$52	$54	$106	$107
Amortization	3	3	5	5
	$55	$57	$111	$112

NOTE 6. Intangible Assets

Intangible assets, net are comprised of the following:

	June 30, 2013			December 31, 2012		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(Dollars in Millions)					
Definite-lived intangible assets:						
Developed technology	$196	$69	$127	$209	$60	$149
Customer related	120	35	85	124	30	94
Other	22	7	15	22	5	17
	$338	$111	$227	$355	$95	$260
Goodwill and indefinite-lived intangible assets:						
Goodwill			$46			$46
Trade names			25			26
			71			72
Total			$298			$332

8

Table of Contents

The Company recorded amortization expense related to definite-lived intangible assets of $10 million and $21 million for the three and six-month periods ended June 30, 2013. The Company estimates amortization expense to be approximately $42 million for the year ending December 31, 2013. Goodwill and trade names, substantially all of which relate to the Company's Climate reporting unit, are not amortized but are assessed for impairment annually, or earlier when events and circumstances indicate that it is more likely than not that such assets have been impaired. The Company performs its annual impairment testing as of the first day of the fourth quarter of each year. No impairment was identified during the periods presented.

NOTE 7. Debt

As of June 30, 2013, the Company had total debt outstanding of $799 million, of which $129 million and $670 million was classified as short-term debt and long-term debt, respectively. The Company’s debt consists of the following:

	June 30 2013	December 31 2012
	(Dollars in Millions)	
Short-term debt		
Current portion of long-term debt	$2	$3
Other – short-term	127	93
Total short-term debt	$129	$96
Long-term debt		
6.75% senior notes due April 15, 2019	446	445
HVCC USD term loan due May 30, 2016	100	—
HVCC KRW term loan due May 30, 2016	87	—
Other	37	28
Total long-term debt	$670	$473

During the first quarter of 2013, Halla Visteon Climate Control ("HVCC") entered into two unsecured bilateral term loan credit agreements with aggregate available borrowings of approximately $195 million, and as of June 30, 2013, the USD equivalent of these agreements was $187 million. Both credit agreements mature in May 2016 and are subject to financial covenants requiring total debt to EBITDA of not greater than 3.2x and a net interest coverage test of more than 3x. The Company was in compliance with such covenants at June 30, 2013.

Other short and long-term debt is primarily related to the Company’s non-U.S. operations and are payable in various currencies. As of June 30, 2013 the Company had international affiliate debt outstanding of $166 million with $129 million and $37 million classified in short-term and long-term debt, respectively. Approximately $139 million of the affiliate debt is related to HVCC of which $108 million and $31 million are classified in short-term and long-term debt, respectively. Short-term affiliate debt also includes an arrangement through a subsidiary in France to sell accounts receivable with recourse on an uncommitted basis. The amount of financing available is dependent on the amount of receivables less customary reserves. At June 30, 2013, the Company had outstanding borrowings under this facility of $20 million with $61 million of receivables pledged as security, which are recorded as Other current assets on the consolidated balance sheet. At December 31, 2012, the Company had outstanding borrowings under this facility of $15 million and $49 million of receivables pledged as security.

NOTE 8. Employee Retirement Benefits

Defined Contribution Plans

Most U.S. salaried employees and certain non-U.S. employees are eligible to participate in defined contribution plans by contributing a portion of their compensation, which is partially matched by the Company. Effective January 1, 2012, matching contributions for the U.S. defined contribution plan are 100% on the first 6% of pay contributed. The expense related to matching contributions was approximately $2 million and $3 million for the three-month periods ended June 30, 2013 and 2012, respectively. The expense related to matching contributions was approximately $6 million and $8 million for the six-month periods ended June 30, 2013 and 2012, respectively.

Table of Contents

Defined Benefit Plans

Net periodic benefit costs for the three-month periods ended June 30, 2013 and 2012 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2013	2012	2013	2012
	(Dollars in Millions)			
Service cost	$—	$—	$6	$5
Interest cost	12	18	7	7
Expected return on plan assets	(15)	(20)	(5)	(5)
Net pension (benefit) expense	$(3)	$(2)	$8	$7

Net periodic benefit costs for the six-month periods ended June 30, 2013 and 2012 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2013	2012	2013	2012
	(Dollars in Millions)			
Service cost	$—	$—	$12	$9
Interest cost	24	35	14	14
Expected return on plan assets	(31)	These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. There are a number of risks, uncertainties and important factors that could cause actual results to differ materially from those indicated by such forward-looking statements. In addition to any such risks, uncertainties and other factors discussed elsewhere herein, the risks, uncertainties and other factors that		

could cause or contribute to actual results differing materially from those expressed or implied in the forward looking statements include, without limitation, those set forth under Part I Item 1A Risk Factors in the Company s Annual Report on Form 10-K for the year ended January 1, 2011 (together with any material changes thereto contained in subsequent filed Quarterly Reports on Form 10-Q); those contained in the Company s other filings with the Securities and Exchange Commission; and those set forth below. The Company s ability to deliver the Results is dependent upon: (i) the Company s ability to execute integration and achieve the synergies, capitalize on growth opportunities and achieve the anticipated

results of the combination with Black & Decker; (ii) the Company s success at limiting merger-related charges; (iii) the Company s ability to achieve working capital benefits and limit restructuring and other payments in connection with the Black & Decker merger; (iv) the Company s ability to make capital investments that are necessary to drive productivity and cost structure improvements while insuring that such investments provide a return on capital employed ; (v) the Company s ability to successfully integrate recent acquisitions including Black & Decker, CRC-Evans and SSDS, as well as any future acquisitions, while limiting associated costs; (vi) the success of the Company s

efforts to expand its tools and security businesses; (vii) the success of the Company s efforts to build a growth platforms and market leadership in Convergent Securities Solutions, Infrastructure and Healthcare; (viii) the Company s success in developing and introducing new and high quality products, growing sales in existing markets, identifying and developing new markets for its products and maintaining and building the strength of its brands; (ix) the continued acceptance of technologies used in the Company s products, including Convergent Security Solutions, Infrastructure and Healthcare products; (x) the Company s ability to manage existing Sonitrol franchisee and

Mac Tools
distributor
relationships;
(xi) the
Company s
ability to
minimize costs
associated with
any sale or
discontinuance
of a business or
product line,
including any
severance,
restructuring,
legal or other
costs; (xii) the
proceeds
realized with
respect to any
business or
product line
disposals;
(xiii) the extent
of any asset
impairments
with respect to
any businesses
or product lines
that are sold or
discontinued;
(xiv) the success
of the Company s
efforts to
manage freight
costs, steel and
other commodity
costs; (xv) the
Company s
ability to sustain
or increase
prices in order
to, among other
things, offset or
mitigate the
impact of steel,
freight, energy,
non-ferrous
commodity and
other commodity
costs and any

inflation increases; (xvi) the Company s ability to generate free cash flow and maintain a strong debt to capital ratio, including focusing on reduction of debt as determined by management; (xvii) the Company s ability to identify and effectively execute productivity improvements and cost reductions, while minimizing any associated restructuring charges; (xviii) the Company s ability to obtain favorable settlement of routine tax audits; (xix) the ability of the Company to generate earnings sufficient to realize future income tax benefits during periods when temporary differences become deductible; (xx) the continued ability of the Company

to access credit and capital markets under satisfactory terms; and (xxi) the Company s ability to negotiate satisfactory payment terms under which the Company buys and sells goods, services, materials and products.

The Company s ability to deliver the Results is also dependent upon: (i) the success of the Company s marketing and sales efforts; (ii) the ability of the Company to maintain or improve production rates in the Company s manufacturing facilities, respond to significant changes in product demand and fulfill demand for new and existing products; (iii) the Company s ability to continue improvements in working capital; (iv) the ability to continue successfully

managing and defending claims and litigation; (v) the success of the Company s efforts to mitigate (such as customer price increases) any cost increases generated by, for example, increases in the cost of energy or significant Chinese Renminbi or other currency appreciation or revaluation; (vi) the geographic distribution of the Company s earnings; and (v) commitment to and success of the Stanley Fulfillment System.

39

The Company s ability to achieve the Results will also be affected by external factors. These external factors include: pricing pressure and other changes within competitive markets; the continued consolidation of customers particularly in consumer channels; inventory management pressures on the Company s customers; the impact the tightened credit markets may have on the Company or its customers or suppliers; the extent to which the Company has to write-off accounts receivable or assets or experiences supply chain disruptions in connection with bankruptcy filings by customers or suppliers; increasing competition; changes in laws, regulations and policies that affect the Company, including, but not limited to trade, monetary, tax and fiscal policies and laws; the timing and extent of any inflation or deflation; currency exchange fluctuations; the impact of dollar/foreign currency exchange and interest rates on the competitiveness of products and the Company s debt program; the strength of the U.S. and European economies; the extent to which world-wide markets associated with homebuilding and remodeling continue to deteriorate; the impact of events that cause or may cause disruption in the Company s manufacturing, distribution and sales networks such as war, terrorist activities, and political unrest; and recessionary or expansive trends in the economies of the world in which the Company operates, including, but not limited to, the extent and duration of the current recession in the US economy.

Unless required by applicable securities laws, the Company undertakes no obligation to publicly update or revise any forward looking statements to reflect events or circumstances that may arise after the date hereof. Readers are advised, however, to consult any further disclosures made on related subjects in the Company s reports filed with the Securities and Exchange Commission.

PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors as disclosed in the Company s 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2011.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table provides information about the Company s purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the three months ended April 2, 2011:

2011	(a) Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of A Publicly Announced Program	Maximum Number Of Shares That May Yet Be Purchased Under The Program
January 2 February 5		$		
February 6 March 5	8,648	75.98		
March 6 April 2				
	8,648	$ 75.98		

As of April 2, 2011, 7.8 million shares of common stock remain authorized for repurchase associated with the prior authorization of the repurchase of 10.0 million shares on December 12, 2007. The Company may continue to repurchase shares in the open market or through privately negotiated transactions from time to time pursuant to this prior authorization to the extent management deems warranted based on a number of factors, including the level of acquisition activity, the market price of the Company s common stock and the current financial condition of the Company.

(a) The shares of common stock in this column were deemed surrendered to the Company by participants in various benefit plans of the Company to satisfy the participants taxes related to vesting or delivery of time vesting restricted share units under those plans.

Table of Contents

ITEM 6. EXHIBITS

(10) Four Year Credit Agreement, dated as of March 11, 2011, by and among Stanley Black & Decker, Inc., The Black & Decker Corporation, as Subsidiary Guarantor, the lenders named therein, Citibank, N.A., as Administrative Agent, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as Lead Arrangers and Book Runners, and Bank of America, N.A., as Syndication Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 16, 2011).

(11) Statement re-computation of per share earnings (the information required to be presented in this exhibit appears in Note C to the Company s Condensed Consolidated Financial Statements set forth in this Quarterly Report on Form 10-Q).

(31)(i)(a) Certification by Chief Executive Officer pursuant to Rule 13a-14(a).

(i)(b) Certification by Chief Financial Officer pursuant to Rule 13a-14(a).

(32)(i) Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(ii) Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(101) The following materials from Stanley Black & Decker Inc. s Quarterly Report on Form 10-Q for the quarter ended April 2, 2011, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Operations for the three months ended April 2, 2011 and April 3, 2010, (ii) Consolidated Balance Sheets at April 2, 2011 and January 1, 2011, (iii) Condensed Consolidated Statements of Cash Flows for the three months ended April 2, 2011 and April 3, 2010, (iv) Consolidated Statements of Changes in Shareowner s Equity at April 2, 2011 and April 3, 2010, and (v) Notes to (Unaudited) Condensed Consolidated Financial Statements, tagged as block of text**.**

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURE

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.

STANLEY BLACK & DECKER, INC.

Date: May 12, 2011

By: /s/ Donald Allan Jr.
Donald Allan Jr.
Senior Vice President and Chief Financial Officer

42