BLACK & DECKER CORP
Form 424B1
September 01, 2010
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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Security	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee (1)
5.20% Notes due 2040	$ 400,000,000	99.925%	$ 399,700,000	$ 28,498.61

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended. This Calculation of Registration Fee table shall be deemed to update the Calculation of Registration Fee table in the registrant s Registration Statement on Form S-3ASR (File No. 333-153646).

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Filed Pursuant to Rule 424(b)(1)
Registration No. 333-153646

PROSPECTUS SUPPLEMENT

(To Prospectus Dated August 31, 2010)

$400,000,000

Stanley Black & Decker, Inc.

5.20% Notes due 2040

Guaranteed by

The Black & Decker Corporation

We will pay interest on the notes on March 1 and September 1 of each year, commencing on March 1, 2011. The notes mature on September 1, 2040. The notes will be issued only in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. We may redeem some or all of the notes at any time before maturity at the make-whole price discussed under the caption Description of the Notes Optional Redemption. As described under Description of the Notes Change of Control, if we experience a Change of Control and a Below Investment Grade Rating Event, we will be required to purchase the notes from holders at a price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest to, but not including, the date of repurchase, unless we have previously redeemed the notes.

The notes will be our unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. The notes will be guaranteed on a senior unsecured basis by our subsidiary, The Black & Decker Corporation. The notes will not be obligations of or guaranteed by any of our other subsidiaries. As a result, the notes will be structurally subordinated to all debt and other liabilities of our subsidiaries other than The Black & Decker Corporation.

See Risk Factors beginning on page S-4 of this prospectus supplement to read about important factors you should consider before buying the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total
Initial public offering price	99.925%	$ 399,700,000
Underwriting discount and commissions	.875%	$ 3,500,000
Proceeds, before expenses, to Stanley Black & Decker, Inc.	99.050%	$ 396,200,000

The initial public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from September 3, 2010 and must be paid by the purchasers if the notes are delivered after September 3, 2010.

The underwriters expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, and Euroclear Bank S.A./N.V., as operator of the Euroclear System, against payment in New York, New York on September 3, 2010.

Joint Book-Running Managers

Barclays Capital **Citi** **J.P. Morgan** **UBS Investment Bank**

Co-Managers

BNP PARIBAS **Credit Suisse** **Goldman, Sachs & Co.** **Wells Fargo Securities**

August 31, 2010

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Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should rely only upon the information contained in this prospectus supplement, the accompanying prospectus and the documents they incorporate by reference. We have not authorized any other person to provide you with different or additional information. We take no responsibility for, and can provide no assurance as to the reliability of, any different or additional information. Neither we nor the underwriters are making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

This prospectus supplement contains the terms of this offering of notes. This prospectus supplement may add, update or change information contained or incorporated by reference in the accompanying prospectus. In addition, the information incorporated by reference in the accompanying prospectus may have added, updated or changed information in the accompanying prospectus. If information in this prospectus supplement is inconsistent with any information in the accompanying prospectus (or any information incorporated therein by reference), this prospectus supplement will apply and will supersede such information in the accompanying prospectus.

It is important for you to read and consider all information contained in this prospectus supplement, the accompanying prospectus and the documents they incorporate by reference in making your investment decision. You should also read and consider the additional information in the prospectus under the caption Where You Can Find More Information.

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SUMMARY

This summary contains basic information about us and this offering. Because it is a summary, it does not contain all of the information that you should consider before investing in the notes. You should read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully, including the section entitled Risk Factors in our annual report on Form 10-K, our quarterly report on Form 10-Q for the quarter ended April 3, 2010, as may be supplemented by subsequently filed quarterly reports on Form 10-Q, and our proxy statement filed with the SEC on February 2, 2010, and our financial statements and the notes thereto incorporated by reference into this prospectus supplement and the accompanying prospectus before making an investment decision. Unless otherwise indicated, all references in this prospectus supplement to the Company, Stanley, we, our, us, or similar terms mean Stanley Black & Decker, Inc. and its subsidiaries.

The Company

Stanley Black & Decker, Inc. (formerly known as The Stanley Works) was founded in 1843 by Frederick T. Stanley and incorporated in 1852. We are a diversified global supplier of hand tools, power tools and related accessories, engineered fastening systems, mechanical access solutions and electronic security solutions.

Our principal executive office is located at 1000 Stanley Drive, New Britain, Connecticut 06053 and our telephone number is (860) 225-5111.

On March 12, 2010, we completed our combination with The Black & Decker Corporation, a Maryland corporation (Black & Decker). Black & Decker, now our wholly owned subsidiary, is a leading global manufacturer and marketer of power tools and accessories, hardware and home improvement products, and technology-based fastening systems. With products and services marketed in over 100 countries, Black & Decker enjoys worldwide recognition of its strong brand names and a superior reputation for quality, design, innovation and value.

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The Offering

For purposes of this Offering section of the prospectus supplement summary, we, us, our, or the company refers to Stanley Black & Decker, Inc., and not its consolidated subsidiaries.

Issuer	Stanley Black & Decker, Inc. a Connecticut corporation
Securities Offered	$400,000,000 in aggregate principal amount of 5.20% notes due 2040.
Interest	The notes will bear interest at the rate of 5.20% per annum, payable semiannually, in arrears, on March 1 and September 1, commencing on March 1, 2011. See Description of the Notes.
Guarantee	The notes will be guaranteed on a senior unsecured basis by Black & Decker. See Description of the Notes Black & Decker Guarantee.
Ranking	The notes will be our direct, unsecured general obligations and rank equally in right of payment with all of our and Black and Decker s other unsecured and unsubordinated debt. As of July 3, 2010, we and Black & Decker had $1,950.0 million principal amount of unsecured and unsubordinated indebtedness that would rank equally in right of payment with the notes and $320.0 million principal amount of unsecured and unsubordinated indebtedness issued by us that is not guaranteed by Black & Decker that is structurally subordinated to the notes.

The notes will not be obligations of or guaranteed by any of our subsidiaries other than Black & Decker. As a result, the notes will be structurally subordinated to all debt and other liabilities of our subsidiaries other than Black & Decker, which means that creditors and preferred stockholders of our subsidiaries will be paid from the assets of such subsidiaries before holders of the notes would have any claims to those assets. See Description of the Notes Ranking.

Use of Proceeds	We expect to receive net proceeds from this offering of approximately $396.0 million, after expenses and underwriters discounts and commissions. We intend to use the net proceeds from this offering to reduce borrowings and for other general corporate purposes. See Use of Proceeds.
Additional Issuances	We may, at any time, create and issue additional notes having the same terms as the notes. If we issue additional notes with original issue discount for U.S. federal income tax purposes, purchasers of notes after such further issue may be required to accrue original issue discount with respect to their notes. This may affect the price of outstanding notes as a result of a further issue. See Description of the Notes Further Issues.
Optional Redemption	We may redeem some or all of the notes at any time and from time to time at a redemption price equal to the greater of:

100% of their principal amount of the notes to be redeemed; and

the sum of the present values of the remaining scheduled payments of interest and principal on the notes to be redeemed, discounted to the redemption date on a semiannual basis at the Treasury Rate plus 25 basis points,

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plus, in either case, accrued and unpaid interest thereon to the date of redemption. See Description of the Notes Optional Redemption.

Change of Control	If a Change of Control Triggering Event occurs, we will make an offer to repurchase the notes. See Description of the Notes Change of Control.
Trustee	The Bank of New York Mellon Trust Company, N.A.
Governing Law	State of New York

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RISK FACTORS

In considering whether to invest in the notes you should carefully consider all of the information we have incorporated by reference into this prospectus supplement. In particular, you should carefully consider the risk factors described below, the discussion of risks relating to our business under the caption Risk Factors in our annual report on Form 10-K, quarterly report on Form 10-Q for the quarter ended April 3, 2010 and subsequently filed Quarterly Reports on Form 10-Q, and our proxy statement filed with the SEC on February 2, 2010, and the factors listed in Special Note Regarding Forward-Looking Statements in the prospectus before deciding whether an investment in the notes is suitable for you. The notes are not an appropriate investment for you if you are unsophisticated with respect to the significant terms of the notes or financial matters.

Risk Factors Relating to the Notes

An active trading market for the notes may not develop.

We cannot assure you that an active trading market for the notes will develop or as to the liquidity or sustainability of any such market, the ability of the holders to sell their notes or the price at which holders of the notes will be able to sell their notes. Future trading prices of the notes will depend on many factors, including, among other things, prevailing interest rates, the market for similar securities, our performance and other factors. We do not intend to apply for listing of the notes on any securities exchange or other market.

We cannot assure you as to the market price for the notes. If you are able to resell your notes, the price you receive will depend on many other factors that may vary over time, including:

- our credit ratings;
- the number of potential buyers;
- the level of liquidity of the notes;
- our financial performance;
- the amount of total indebtedness we have outstanding;
- the level, direction and volatility of market interest rates and credit spreads generally;
- the market for similar securities;
- the repayment and redemption features of the notes; and
- the time remaining until your notes mature.

As a result of these and other factors, you may be able to sell your notes only at a price below that which you believe to be appropriate, including a price below the price you paid for them.

There is no limit on our ability to create additional notes.

Under the terms of the Indenture (as defined herein) under which the notes will be issued, we may from time to time without notice to, or the consent of, the holders of the notes, create and issue additional notes identical to the notes in all respects (except for the payment of interest accruing prior to the issue date of the new notes or except for the first payment of interest following the issue date of the new notes) so that the new notes may be consolidated and form a single series with the notes.

We may release the Black & Decker guarantee.

We are permitted to release the Black & Decker guarantee under the circumstances described under Description of the Notes Black & Decker Guarantee. If we release the Black & Decker guarantee, the notes

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will be structurally subordinated to all existing and future indebtedness and other obligations of Black & Decker and our other subsidiaries. See Description of the Notes Ranking.

We are both an operating company and a holding company and may require cash from our subsidiaries to make payments on the notes.

The notes are solely our obligation, and no other entity will have any obligation, contingent or otherwise, to make payments in respect of the notes. While we have substantial operations of our own, we are also a holding company for several direct and indirect subsidiaries. Our subsidiaries other than Black & Decker will have no obligation to make payments in respect of the notes. Accordingly, we may depend, in part, on dividends and other distributions from our subsidiaries to generate the funds necessary to meet our obligations under the indenture governing the notes, including payment of interest. As described above, as an equity holder of our subsidiaries, our ability to participate in any distribution of assets of any subsidiary is structurally subordinate to the claims of the creditors of that subsidiary. The indenture governing the notes does not restrict the amount of unsecured debt that our subsidiaries may incur. If we are unable to obtain cash from our subsidiaries, we may be unable to fund required payments in respect of the notes.

If the Black & Decker guarantee is deemed a fraudulent conveyance or preferential transfer, a court may subordinate or void it.

If, under relevant federal and state fraudulent transfer and conveyance statutes, in a bankruptcy or reorganization case or a lawsuit by or on behalf of unpaid creditors of our company, a court were to find that, at the time Black & Decker incurred a guarantee:

- it did so with the intent of hindering, delaying or defrauding current or future creditors, or received less than reasonably equivalent value or fair consideration for incurring the guarantee; and

- Black & Decker:

  - was insolvent or was rendered insolvent by reason of the incurrence of the indebtedness constituting the guarantee;

  - was engaged, or about to engage, in a business or transaction for which its assets constituted unreasonably small capital; or

  - was a defendant in an action for money damages, or had a judgment for money damages docketed against it if, in either case, after final judgment the judgment is unsatisfied;

the court could void or subordinate the applicable guarantee to currently existing and future indebtedness of Black & Decker, and take other action detrimental to the holders of the notes including, under certain circumstances, invalidating the guarantee.

The measure of insolvency for purposes of the foregoing considerations will vary depending upon the law of the jurisdiction that is being applied in the relevant legal proceeding. Generally, however, Black & Decker would be considered insolvent if, at the time Black & Decker incurs the indebtedness constituting the guarantee either:

- the sum of its debts, including contingent liabilities, is greater than its assets, at a fair valuation; or

- the present fair saleable value of its assets is less than the amount required to pay the probable liability on its total existing debts and liabilities, including contingent liabilities, as they become absolute and matured.

We cannot give you any assurance as to what standards a court would use to determine whether Black & Decker was solvent at the relevant time or, regardless what standard was used, whether the applicable guarantee would not be avoided on another of the grounds described above.

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While the guarantee provided Black & Decker will be limited by its terms to the maximum amount that Black & Decker can pay without the guarantee being deemed a fraudulent conveyance, a court could find these limitations on the maximum amount of the guarantee to be ineffective or unenforceable and still apply federal and state fraudulent conveyance statutes to the guarantee to void the obligations under the guarantee or subordinate the guarantee to all other obligations of Black & Decker.

Our ability to repurchase notes upon a change of control may be limited.

Upon the occurrence of a Change of Control Triggering Event (as defined herein), each holder of notes will have the right to require us to repurchase the holder s notes. If a Change of Control Triggering Event were to occur, but we did not have sufficient funds to pay the repurchase price for all of the notes which were tendered, that failure would constitute an event of default under the Indenture. Therefore, the occurrence of a Change of Control Triggering Event at a time when we could not pay for the notes which were tendered as a result of the Change of Control Triggering Event could result in holders of notes receiving substantially less than the principal amount of the notes.

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USE OF PROCEEDS

We expect to receive net proceeds from this offering of approximately $396.0 million, after expenses and underwriters discounts and commissions. We intend to use the net proceeds from this offering to reduce borrowings and for other general corporate purposes.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of July 3, 2010, on an actual and an as adjusted basis to give effect to the issuance of the notes and the application of the net proceeds.

The actual data included in the table below is derived from our unaudited consolidated financial statements as of July 3, 2010. This table should be read in conjunction with those consolidated financial statements and the notes thereto in our quarterly report on Form 10-Q for the quarter ended July 3, 2010 and incorporated in this prospectus supplement by reference.

	As of July 3, 2010 (unaudited)	
	Actual	As Adjusted
	(in millions)	
Cash and cash equivalents	$ 1,598.4	$ 1,654.4
Short-term borrowings	$ 343.9	$ 3.9
Long-term debt:		
7.13% Notes due 2011	$ 420.1	$ 420.1
4.90% Notes due 2012	208.6	208.6
Floating Rate Convertible Notes due 2012	299.8	299.8
6.15% Notes due 2013	259.8	259.8
4.75% Notes due 2014	313.5	313.5
8.95% Notes due 2014	413.6	413.6
5.75% Notes due 2016	326.2	326.2
7.05% Notes due 2028	169.1	169.1
5.90% Subordinated Notes due 2045	312.7	312.7
Notes offered hereby		399.7
Other	22.7	22.7
Long-term debt, including current maturities	2,746.1	3,145.8
Less current maturities	427.4	427.4
Total long term debt	2,318.7	2,718.4
Total shareholders equity	6,609.2	6,609.2
Total capitalization	$ 8,927.9	$ 9,327.6

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DESCRIPTION OF THE NOTES

General

The notes will be issued under an indenture dated as of November 1, 2002 (the Indenture), between us and The Bank of New York Mellon Trust Company, N.A. as successor trustee (the Trustee) to JPMorgan Chase Bank, N.A. The following description of the particular terms of the notes supplements the description of the general terms and provisions of the debt securities set forth in the accompanying prospectus.

The notes:

- will be unsecured, unsubordinated debt securities,
- will initially be limited to $400,000,000 aggregate principal amount,
- will mature on September 1, 2040,
- will bear interest from September 3, 2010 at the rate of 5.20% per annum,
- will pay interest semiannually, in arrears, on March 1 and September 1, commencing on March 1, 2011 to the persons in whose names the notes are registered at the close of business on the preceding February 15 and August 15, respectively, and
- will be issued in book-entry form only.

As used in this Description of the Notes, the terms we, our and us refer to Stanley Black & Decker, Inc., a Connecticut corporation, and do not, unless otherwise specified, include our subsidiaries.

Black & Decker Guarantee

The notes will be guaranteed on a senior unsecured basis by Black & Decker. Black & Decker will guarantee the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all of our monetary obligations under the Indenture and the notes, whether for principal of, premium, if any, or interest on the notes, expenses, indemnification or otherwise, and agree to pay any and all reasonable out-of-pocket expenses incurred by the Trustee or the note holders in enforcing any rights under the guarantee. The obligations of Black & Decker as a guarantor will be limited to the extent necessary to prevent the obligations from constituting a fraudulent conveyance or fraudulent transfer.

Black & Decker s guarantee will be a continuing guarantee and will inure to the benefit of and be enforceable by the Trustee, the holders of the notes and their successors, transferees and assigns.

Notwithstanding the preceding paragraph, Black & Decker will automatically and unconditionally be released from all obligations under its guarantee, and such guarantee shall thereupon terminate and be discharged and of no further force or effect, (i) upon the merger or consolidation of Black & Decker, in the event of a sale or other transfer of equity interests in, or assets of, Black & Decker, or dissolution of Black & Decker in compliance with the terms of the Indenture following which Black & Decker ceases to be our consolidated subsidiary; (ii) upon legal or covenant defeasance of our obligations, or satisfaction and discharge of the Indenture, or (iii) upon payment in full of the aggregate principal amount of all notes then outstanding.

In addition, we are permitted to release the guarantee of the notes without the consent of the Trustee or any holder of notes if:

(1) Black & Decker is not then, or immediately thereafter will not be, a guarantor of our credit agreement with a syndicate of banks represented by Citibank, N.A. or any replacement bank credit facility or such guarantee is released simultaneously with the release of the guarantee on the notes;

(2) Black & Decker is not then, or immediately thereafter will not be, a guarantor of any of our outstanding senior unsecured notes or debentures issued in capital market transactions or such guarantees are released simultaneously with the release of the guarantee on the notes; and

(3) no event of default has occurred and is continuing.

Once released, we will not be required to reinstate the Black & Decker guarantee even if one or more of the conditions required for the release is not satisfied in the future.

The Black & Decker guarantee may be modified with the consent of holders of a majority in principal amount of the notes.

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Ranking

Until the Black & Decker guarantee is released, the notes will be our direct, unsecured general obligations, guaranteed on a senior unsecured basis by Black & Decker, and rank equally in right of payment with all of our and Black & Decker s other unsecured and unsubordinated debt. As of July 3, 2010, we and Black & Decker had $1,950.0 million principal amount of unsecured and unsubordinated indebtedness that would rank equally in right of payment with the notes and $320.0 million principal amount of unsecured and unsubordinated indebtedness issued by us that is not guaranteed by Black & Decker that is structurally subordinated to the notes.

So long as the notes are guaranteed by Black & Decker, the notes will not be obligations of or guaranteed by any of our subsidiaries other than Black & Decker. As a result, the notes will be structurally subordinated to all debt and other liabilities of our subsidiaries other than Black & Decker, which means that creditors and preferred stockholders of our subsidiaries will be paid from the assets of such subsidiaries before holders of the notes would have any claims to those assets. As of July 3, 2010, our subsidiaries other than Black & Decker had approximately $3,933.2 million of total liabilities, including the principal amount of debt outstanding.

If the Black & Decker guarantee is released, the notes will be structurally subordinated to all debt and other liabilities of our subsidiaries. As of July 3, 2010, our subsidiaries had approximately $5,516.1 million of total liabilities, including the principal amount of debt outstanding.

Further Issues

We may from time to time, without notice to or consent of the holders of the notes, issue additional notes of the same tenor, coupon and other terms as the notes, so that such notes and the notes offered hereby will form a single series. We refer to this additional issuance of notes as a further issue.

Purchasers of the notes we are offering, after the date of any further issue, will not be able to differentiate between the notes sold as part of the further issue and previously issued notes. If we were to issue notes with original issue discount for U.S. federal income tax purposes, persons that are subject to U.S. federal income taxation who purchase notes after such further issue may be required to accrue original issue discount with respect to their notes. This may affect the price of outstanding notes as a result of a further issue. Purchasers are advised to consult their own tax advisors with respect to the U.S. tax implications of any future decision by us to undertake a further issue of additional notes with original issue discount.

Optional Redemption

At any time and from time to time, the notes are redeemable, as a whole or in part (equal to an integral multiple of $1,000), at our option, on at least 30 days, and not more than 60 days, prior notice mailed to the registered address of each holder of the notes, at a redemption price equal to the greater of:

100% of the principal amount of the notes to be redeemed, or

the sum of the present values of the remaining scheduled payments of interest and principal on the notes to be redeemed (exclusive of interest accrued and unpaid to, but not including, the date of redemption) discounted to the date of redemption on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 25 basis points,

plus accrued and unpaid interest to, but not including, the date of redemption; provided that the principal amount of a note remaining outstanding after a redemption in part shall be $2,000 or an integral multiple of $1,000 in excess thereof. Once notice of redemption is mailed, the notes called for redemption will become due and payable on the redemption date and at the applicable redemption price, plus accrued and unpaid interest to the redemption date.

Comparable Treasury Issue means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of

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the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

Comparable Treasury Price means, with respect to any redemption date, (A) the arithmetic average of four Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the arithmetic average of all such quotations for such redemption date.

Independent Investment Banker means one of the Reference Treasury Dealers appointed by the Trustee after consultation with us; provided, that if such Reference Treasury Dealer ceases to be a Primary Treasury Dealer, we will substitute another Primary Treasury Dealer.

Reference Treasury Dealer means Barclays Capital Inc., Citigroup Global Markets Inc., J.P. Morgan Securities Inc., and UBS Securities LLC; provided, that if any of the foregoing dealers shall cease to be a primary U.S. Government securities dealer in the United States (a Primary Treasury Dealer), we will substitute another Primary Treasury Dealer.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the arithmetic average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m. New York City time on the third business day preceding such redemption date.

Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

On and after the redemption date for the notes, interest will cease to accrue on the notes or any portion thereof called for redemption, unless we default in the payment of the redemption price. On or before the redemption date for the notes, we will deposit with a paying agent, or the Trustee, funds sufficient to pay the redemption price of and accrued and unpaid interest on such notes to be redeemed on such date. If less than all of the notes are to be redeemed, the notes to be redeemed will be selected by the Trustee by such method as the Trustee deems fair and appropriate.

Change of Control

If a Change of Control Triggering Event occurs, unless we have exercised our option to redeem all notes then outstanding, you will have the right to require us to repurchase all or any part (equal to an integral multiple of $1,000) of your notes pursuant to the offer described below (the Change of Control Offer); provided that the principal amount of a note outstanding after a repurchase in part shall be $2,000 or an integral multiple of $1,000 in excess thereof. In the Change of Control Offer, we will offer payment in cash equal to 101% of the aggregate principal amount of notes to be repurchased plus accrued and unpaid interest, if any, on the notes repurchased, to the date of purchase (the Change of Control Payment). Within 30 days following any Change of Control Triggering Event, we will mail a notice to you describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase the notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the Change of Control Payment Date), pursuant to the procedures and described in such notice. We will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934 and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any

securities laws or regulations conflict with the Change of Control provisions of the notes, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control provisions of the Indenture by virtue of such conflicts.

On the Change of Control Payment Date, we will, to the extent lawful:

- accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;
- deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and
- deliver or cause to be delivered to the Trustee the notes properly accepted together with an officers certificate stating the aggregate principal amount of notes or portions of notes being purchased by us and the amount to be paid by the paying agent.

For purposes of the foregoing discussion of a repurchase at the option of holders, the following definitions are applicable:

Below Investment Grade Rating Event means the notes are rated below an Investment Grade Rating by each of the Rating Agencies on any date from the date of the public notice of an arrangement that could result in a Change of Control until the end of the 60-day period following public notice of the occurrence of the Change of Control (which 60-day period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by any two of the three Rating Agencies).

Change of Control means the occurrence of any of the following: (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of us and our subsidiaries taken as a whole to any person (as that term is used in Section 13(d)(3) of the Exchange Act) other than us or one of our subsidiaries; (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person (as defined above) becomes the beneficial owner, directly or indirectly, of more than 50% of the then outstanding total voting power of all shares of our capital stock entitled to vote generally in elections of directors; or (3) the first day on which a majority of the members of our board of directors are not Continuing Directors.

Change of Control Triggering Event means the occurrence of both a Change of Control and a Below Investment Grade Rating Event.

Continuing Directors means, as of any date of determination, any member of our board of directors who (1) was a member of such board of directors on the date the notes were first issued; or (2) was nominated for election or elected to such board of directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination or election.

Fitch means Fitch, Inc. and its successors.

Investment Grade Rating means a rating equal to or higher than Baa3 (or the equivalent) by Moody s, BBB (or the equivalent) by S&P and BBB (or the equivalent) by Fitch.

Moody s means Moody s Investors Service, Inc., and its successors.

Rating Agencies means (1) each of Moody s, S&P and Fitch; and (2) if any of Moody s, S&P or Fitch ceases to rate the notes or fails to make a rating of the notes publicly available for reasons outside of our control, a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act, as amended, selected by us (as certified by a resolution of our board of directors) as a replacement agency for Moody s, S&P or Fitch, as the case may be.

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S&P means Standard & Poor s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

Defeasance

The defeasance provisions described under Description of Debt Securities Discharge, Defeasance and Covenant Defeasance in the accompanying prospectus will apply to the Notes.

Book-Entry System

The Depository Trust Company, or DTC, which we refer to along with its successors in this capacity as the depositary, will act as securities depositary for the notes. The notes will be issued as fully registered securities registered in the name of Cede & Co., the depositary s nominee. One or more fully registered global security certificates, representing the total aggregate principal amount of the notes, will be issued and will be deposited with the depositary or its custodian and will bear a legend regarding the restrictions on exchanges and registration of transfer referred to below.

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in the notes so long as the notes are represented by global security certificates.

Investors may elect to hold interests in the global notes through either DTC in the U.S. or Clearstream or Euroclear, in Europe if they are participants of such systems, or indirectly through organizations which are participants in such systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers securities accounts in Clearstream s and Euroclear s names on the books of their respective depositaries, which in turn will hold such interests in customers securities accounts in the depositaries names on the books of DTC.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (Direct Participants) deposit with DTC and facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants). The DTC rules applicable to its Participants are on file with the SEC.

Clearstream advises that it is incorporated under the laws of Luxembourg as a professional depositary. Clearstream holds securities for its participating organizations, or Clearstream Participants, and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream Participants are recognized financial

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institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Distributions with respect to interests in the notes held beneficially through Clearstream will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures.

Euroclear advises that it was created in 1968 to hold securities for participants of Euroclear, or Euroclear Participants, and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S. A. /N. V., or Euroclear Operator. All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of Euroclear, and applicable Belgian law, which we refer to collectively as the Terms and Conditions. The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no records of or relationship with persons holding through Euroclear Participants.

Distributions with respect to the notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions.

We will issue the notes in definitive certificated form if the depositary notifies us that it is unwilling or unable to continue as depositary or the depositary ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by us within 90 days. In addition, beneficial interests in a global security certificate may be exchanged for definitive certificated notes upon request by or on behalf of the depositary in accordance with customary procedures following the request of a beneficial owner seeking to exercise or enforce its rights under such notes. If we determine at any time that the notes shall no longer be represented by global security certificates, we will inform the depositary of such determination who will, in turn, notify participants of their right to withdraw their beneficial interest from the global security certificates, and if such participants elect to withdraw their beneficial interests, we will issue certificates in definitive form in exchange for such beneficial interests in the global security certificates. Any global note, or portion thereof, that is exchangeable pursuant to this paragraph will be exchangeable for security certificates, as the case may be, registered in the names directed by the depositary. We expect that these instructions will be based upon directions received by the depositary from its participants with respect to ownership of beneficial interests in the global security certificates.

As long as the depositary or its nominee is the registered owner of the global security certificates, the depositary or its nominee, as the case may be, will be considered the sole owner and holder of the global security certificates and all notes represented by these certificates for all purposes under the indenture. Except in the limited circumstances referred to above, owners of beneficial interests in global security certificates:

will not be entitled to have the notes represented by these global security certificates registered in their names, and

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will not be considered to be owners or holders of the global security certificates or any notes represented by these certificates for any purpose under the notes or the indenture.

All payments on the notes represented by global security certificates and all transfers and deliveries of related notes will be made to the depositary or its nominee, as the case may be, as the holder of such securities.

Ownership of beneficial interests in the global security certificates will be limited to participants or persons that may hold beneficial interests through institutions that have accounts with the depositary or its nominee. Ownership of beneficial interests in global security certificates will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by the depositary or its nominee, with respect to participants interests, or any participant, with respect to interests of persons held by the participant on their behalf. Payments, transfers, deliveries, exchanges and other matters relating to beneficial interests in global security certificates may be subject to various policies and procedures adopted by the depositary from time to time. Neither we nor the Trustee will have any responsibility or liability for any aspect of the depositary s or any participant s records relating to, or for payments made on account of, beneficial interests in global security certificates, or for maintaining, supervising or reviewing any of the depositary s records or any participant s records relating to these beneficial ownership interests.

Although the depositary has agreed to the foregoing procedures in order to facilitate transfers of interests in the global security certificates among participants, the depositary is under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. We will not have any responsibility for the performance by the depositary or its direct participants or indirect participants under the rules and procedures governing the depositary.

The information in this section concerning the depositary, its book-entry system, Clearstream and Euroclear has been obtained from sources that we believe to be reliable, but we have not attempted to verify the accuracy of this information.

Global Clearance and Settlement Procedures

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled in immediately available funds using DTC s Same-Day Funds Settlement System. Secondary market trading between Clearstream Participants and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear, as applicable.

Cross-market transfers between persons holding directly or indirectly through DTC on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, will be effected through DTC in accordance with DTC rules; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time).

Because of time-zone differences, credits of the notes received in Clearstream or Euroclear as a result of a transaction with a DTC Participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such notes settled during such processing will be reported to the relevant Euroclear Participant or Clearstream Participant on such business day. Cash received in Clearstream or Euroclear as a result of sales of the notes by or through a Clearstream Participant or a Euroclear Participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued or changed at any time.

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CERTAIN MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR NON U.S. HOLDERS

The following is a general discussion of certain material U.S. federal income tax consequences of the purchase, ownership and disposition of the notes. This discussion applies only to a Non-U.S. Holder (as defined below) that acquires the notes pursuant to this offering at the initial offering price. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), Treasury Regulations and judicial decisions and administrative interpretations thereof, all as of the date hereof and all of which are subject to change, possibly with retroactive effect. This discussion is limited to investors that hold the notes as capital assets for U.S. federal income tax purposes. Furthermore, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law, such as financial institutions, insurance companies, tax-exempt organizations, entities that are treated as partnerships for U.S. federal income tax purposes, U.S. holders of notes, dealers in securities or currencies, expatriates, persons deemed to sell the notes under the constructive sale provisions of the Code and persons that hold the notes as part of a straddle, hedge, conversion transaction or other integrated investment. Furthermore, this discussion does not address any U.S. federal estate or gift tax consequences or any state, local or foreign tax consequences. Prospective investors are urged to consult their tax advisors regarding the U.S. federal, state, local and foreign income and other tax consequences of the purchase, ownership and disposition of the notes.

For purposes of this summary, the term Non-U.S. Holder means a beneficial owner of a note that is not, for U.S. federal income tax purposes (i) an individual that is a citizen or resident of the United States, (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, that is created or organized under the laws of the United States, any of the States or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (A) if a court within the United States is able to exercise primary control over its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust, or (B) that has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) owns notes, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns the notes should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

Non-U.S. Holders

Interest

Subject to the discussion below concerning backup withholding, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on payments of interest on the notes provided that (i) such interest is not effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder (or, if certain tax treaties apply, if such interest is effectively connected with the conduct of a trade or business within the United States but is not attributable to a permanent establishment maintained in the United States by the Non-U.S. Holder) and (ii) the Non-U.S. Holder (A) does not actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock, (B) is not a controlled foreign corporation related to us directly or constructively through stock ownership, and (C) satisfies certain certification requirements. Such certification requirements will be met if (x) the Non-U.S. Holder provides its name and address, and certifies on IRS Form W-8BEN (or a substantially similar form), under penalties of perjury, that it is not a U.S. person or (y) a securities clearing organization or certain other financial institutions holding the note on behalf of the Non-U.S. Holder certifies on IRS Form W-8IMY, under penalties of perjury, that such certification has been received by it and furnishes us or our paying agent with a copy thereof. In addition, we or our paying agent must not have actual knowledge or reason to know that the beneficial owner of the note is a U.S. person.

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If interest on the notes is not effectively connected with the conduct of a trade or business in the United States by a Non-U.S. Holder, but such Non-U.S. Holder cannot satisfy the other requirements outlined above, interest on the notes will generally be subject to U.S. withholding tax at a 30% rate (or a lower applicable treaty rate).

If interest on the notes is effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder, and, if certain tax treaties apply, is attributable to a permanent establishment maintained by the Non-U.S. Holder within the United States, then the Non-U.S. Holder generally will be subject to U.S. federal income tax on such interest in the same manner as if such holder were a U.S. person and, in the case of a Non-U.S. Holder that is a foreign corporation, may also be subject to an additional branch profits tax at a rate of 30% (or a lower applicable treaty rate). However, any such interest will not also be subject to withholding tax if the Non-U.S. Holder delivers to us a properly executed IRS Form W-8ECI in order to claim an exemption from withholding tax.

Non-U.S. Holders should consult their tax advisors regarding any applicable income tax treaties, which may provide for a lower rate of withholding tax, exemption from or reduction of branch profits tax, or other rules different from those described above.

Disposition of the Notes

Subject to the discussion below concerning backup withholding, a Non-U.S. Holder will not generally be subject to U.S. federal withholding tax with respect to gain recognized on the sale, exchange, retirement or other disposition of the notes. A Non-U.S. Holder also generally will not be subject to U.S. federal income tax with respect to such gain unless (i) the gain is effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder and, if certain tax treaties apply, is attributable to a permanent establishment maintained by the Non-U.S. Holder within the United States, or (ii) in the case of a Non-U.S. Holder that is a nonresident alien individual, such holder is present in the United States for 183 or more days in the taxable year and certain other conditions are satisfied. In the case described above in (i), gain or loss recognized on the disposition of such notes will generally be subject to U.S. federal income taxation in the same manner as if such gain or loss were recognized by a U.S. person, and, in the case of a Non-U.S. Holder that is a foreign corporation, may also be subject to an additional branch profits tax at a rate of 30% (or a lower applicable treaty rate). In the case described above in (ii), the Non-U.S. Holder generally will be subject to 30% tax (or lower applicable treaty rate) on any capital gain recognized on the disposition of the notes, which may be offset by certain U.S. source capital losses. Proceeds from the disposition of a note that are attributable to accrued but unpaid interest generally will be subject to, or exempt from, tax to the same extent as described above with respect to interest paid on a note.

Information Reporting and Backup Withholding

A Non-U.S. Holder generally will be required to comply with certain certification procedures in order to establish that such holder is not a U.S. person in order to avoid backup withholding with respect to payments of principal and interest on or the proceeds of a disposition of the notes. In addition, we must report annually to the IRS and to each Non-U.S. Holder the amount of any interest paid to such Non-U.S. Holder and the amount of tax, if any, withheld with respect to such interest. Copies of the information returns reporting such interest payments and the amount of any tax withheld may also be made available to the tax authorities in the country in which a Non-U.S. Holder resides under the provisions of an applicable income tax treaty. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a Non-U.S. Holder s U.S. federal income tax liability provided the required information is timely provided to the IRS. Non-U.S. Holders should consult their tax advisors as to their qualification for exemption for backup withholding and the procedure for obtaining such an exemption.

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UNDERWRITING

We and the underwriters named below have entered into an underwriting agreement with respect to the notes. Subject to certain conditions, each underwriter has severally agreed to purchase the principal amount of notes indicated in the following table.

Underwriter	Principal Amount
Barclays Capital Inc.	$ 85,715,000
Citigroup Global Markets Inc.	85,715,000
UBS Securities LLC	85,715,000
J.P. Morgan Securities Inc.	57,143,000
BNP Paribas Securities Corp.	21,428,000
Credit Suisse Securities (USA) LLC	21,428,000
Goldman, Sachs & Co.	21,428,000
Wells Fargo Securities, LLC	21,428,000
Total	$ 400,000,000

The underwriters are committed to take and pay for all of the notes being offered, if any are taken.

Notes sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus supplement. Any notes sold by the underwriters to securities dealers may be sold at a discount from the public offering price of up to 0.500% of the principal amount of notes. Any such securities dealers may resell any notes purchased from the underwriters to certain other brokers or dealers at a discount from the public offering price of up to 0.250% of the principal amount of notes. If all the notes are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms.

The notes are a new issue of securities with no established trading market. We have been advised by the underwriters that the underwriters intend to make a market in the notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes.

In connection with the offering, the underwriters may purchase and sell notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of more notes than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters, as well as other purchases by the underwriters for their own accounts, may stabilize, maintain or otherwise affect the market price of the notes. As a result, the price of the notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

We estimate that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $200,000.

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We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

The underwriters and their affiliates have, from time to time, performed, and may in the future perform, various lending, financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of notes to the public in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each underwriter has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the FSMA)) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to us, and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Hong Kong

The notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the

Securities and Futures Ordinance (Cap.571,

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Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Japan

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

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LEGAL MATTERS

Donald J. Riccitelli, Corporate Counsel of Stanley Black & Decker, Inc. and Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York are representing us in connection with this offering. The underwriters are being represented by Davis Polk & Wardwell LLP, New York, New York. Mr. Riccitelli beneficially owns and has rights to acquire less than one percent of our common stock.

EXPERTS

The consolidated financial statements of Stanley Black & Decker, Inc. and subsidiaries (formerly The Stanley Works) (the Company) appearing in the Company s Annual Report (Form 10-K) for the year ended January 2, 2010 (including the schedule appearing therein), and the effectiveness of the Company s internal control over financial reporting as of January 2, 2010, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in its reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and schedule are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of The Black & Decker Corporation and subsidiaries (Black & Decker), appearing in the Company s Current Report on Form 8-K dated March 12, 2010, and the financial statement schedule appearing in Black & Decker s Annual Report (Form 10-K) for the year ended December 31, 2009 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, appearing in the Company s Form 8-K dated March 12, 2010, and the effectiveness of Black & Decker s internal control over financial reporting as of December 31, 2009 has been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in its report thereon, appearing in Black & Decker s Annual Report (Form 10-K) for the year ended December 31, 2009 and incorporated by reference in the Company s definitive proxy statement filed with the Securities and Exchange Commission on February 2, 2010. Both reports have been incorporated herein by reference. Such consolidated financial statements and schedule are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

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Prospectus

Stanley Black & Decker, Inc.

Common Stock

Preferred Stock

Debt Securities

Guarantees of Debt Securities

Warrants

Depositary Shares

Stock Purchase Contracts

and

Stock Purchase Units

We may offer, issue and sell, together or separately:

- shares of our common stock;
- shares of our preferred stock;
- debt securities, which may be senior debt securities or subordinated debt securities;
- warrants to purchase our debt securities, shares of our common stock, shares of our preferred stock, depositary shares or securities of third parties or other rights;
- depositary shares representing an interest in our preferred stock;
- stock purchase contracts to purchase shares of our common stock; and
- stock purchase units, each representing ownership of a stock purchase contract and debt securities, preferred securities or debt obligations of third-parties, including U.S. treasury securities or any combination of the foregoing, securing the holder s obligation to purchase our common stock or other securities under the stock purchase contracts.

We will provide the specific prices and terms of these securities in one or more supplements to this prospectus at the time of offering. The debt securities we offer may be guaranteed by our subsidiary, The Black & Decker Corporation, or other subsidiaries identified in one or more supplements to the prospectus. You should read this prospectus and the accompanying prospectus supplement carefully before you make your

investment decision.

This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

Investing in our securities involves a number of risks. See Risk Factors on page 6 before you make your investment decision.

We may offer securities through underwriting syndicates managed or co-managed by one or more underwriters or dealers, through agents or directly to purchasers. The prospectus supplement for each offering of securities will describe in detail the plan of distribution for that offering. For general information about the distribution of securities offered, please see Plan of Distribution in this prospectus.

Our common stock is listed on the New York Stock Exchange under the trading symbol SWK.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus or the accompanying prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 31, 2010

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ABOUT THIS PROSPECTUS

This prospectus is part of an automatic shelf registration statement that we filed with the Securities and Exchange Commission, or SEC, as a well-known seasoned issuer as defined in Rule 405 under the Securities Act of 1933, as amended, or the Securities Act, using a shelf registration process. Under this process, we may sell common stock; preferred stock; debt securities; warrants to purchase debt securities, common stock, preferred stock, depositary shares or securities of third parties or other rights; depositary shares; stock purchase contracts and stock purchase units. This prospectus only provides you with a general description of the securities that we may offer. Each time we sell securities, we will provide a supplement to this prospectus that contains specific information about the terms of the securities. The prospectus supplement may also add, update or change information contained in this prospectus. In the case of debt securities, the prospectus supplement may identify one or more subsidiaries providing a guarantee on our obligations under the debt securities. Before purchasing any securities, you should carefully read both this prospectus and the accompanying prospectus supplement and any free writing prospectus prepared by or on behalf of us, together with the additional information described under the heading Where You Can Find More Information.

You should rely only on the information contained or incorporated by reference in this prospectus and any prospectus supplement. We have not authorized anyone to provide you with different information. We are not making offers to sell the securities in any jurisdiction in which an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make an offer or solicitation.

The information in this prospectus is accurate as of the date on the front cover. You should not assume that the information contained in this prospectus is accurate as of any other date.

When used in this prospectus, the terms Stanley Black & Decker, Inc., we, our and us refer to Stanley Black & Decker, Inc. and its consolidated subsidiaries, unless otherwise specified or the context otherwise requires.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended and the rules promulgated thereunder (the Exchange Act). Our SEC filings are available to the public at the SEC s website at www.sec.gov. You may read and copy all or any portion of this information at the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference rooms. We maintain a website at www.stanleyblackanddecker.com. The information on our web site is not incorporated by reference in this prospectus and any prospectus supplement and you should not consider it a part of this prospectus and any accompanying prospectus supplement.

You can also inspect reports, proxy statements and other information about Stanley Black & Decker, Inc. at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The SEC allows us to incorporate by reference information into this prospectus and any accompanying prospectus supplement, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus and any accompanying prospectus supplement, except for any information superseded by information contained directly in this prospectus, any accompanying prospectus supplement or any subsequently filed document deemed incorporated by reference. This prospectus and any accompanying prospectus supplement incorporates by reference the documents set forth below that Stanley Black & Decker, Inc. has previously filed with the SEC (other than information deemed furnished and not filed in accordance with SEC rules, including Items 2.02 and 7.01 of Form 8-K). These documents contain important information about Stanley Black & Decker, Inc. and its finances.

Annual Report on Form 10-K for the fiscal year ended January 2, 2010;

The information specifically incorporated by reference into our Annual Report on Form 10-K for the fiscal year ended January 2, 2010 from our definitive proxy statement on Schedule 14A filed with the SEC on April 26, 2010;

Quarterly Reports on Form 10-Q for the quarters ended April 3, 2010 and July 3, 2010;

Current Reports on Form 8-K filed March 11, 2010, March 12, 2010 (2 separate reports filed on this date), April 13, 2010, May 20, 2010, May 28, 2010 (8-K/A), July 21, 2010 (8-K/A), and July 29, 2010;

The description of our common stock contained in our Registration Statement on Form 8-A/A, filed with the SEC on March 12, 2010, and any amendment or report filed for the purpose of updating such description;

The description of the depositary preferred stock purchase rights associated with our common stock contained in our Registration Statement on Form 8-A/A, filed with the SEC on July 23, 2004, and any amendment or report filed for the purpose of updating such description; and

Our definitive proxy statement filed with the SEC on February 2, 2010.

All documents filed by us pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and any accompanying prospectus supplement and before the termination of the offering shall also be deemed to be incorporated herein by reference. We are not, however, incorporating by reference any documents or portions thereof, whether specifically listed above or filed in the future, that are not deemed filed with the SEC, including our compensation committee report and performance graph or any information furnished pursuant to Items 2.02 or 7.01 of Form 8-K or certain exhibits furnished pursuant to Item 9.01 of Form 8-K.

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To obtain a copy of these filings at no cost, you may write or telephone us at the following address:

Stanley Black & Decker, Inc.

1000 Stanley Drive

New Britain, Connecticut 06053

Attention: Treasurer

(860) 225-5111

We will provide to each person, including any beneficial owner, to whom a prospectus is delivered, a copy of any or all of the information that has been incorporated by reference in the prospectus but not delivered with the prospectus. Exhibits to the filings will not be sent, however, unless those exhibits have specifically been incorporated by reference into such documents.

SPECIAL NOTE REGARDING

FORWARD-LOOKING STATEMENTS

This prospectus and any accompanying prospectus supplement and any documents incorporated by reference contain or incorporate statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995.

Those statements include trend analyses and other information relative to markets for our products and trends in our operations or financial results as well as other statements that can be identified by the use of forward-looking language such as may, should, believes, expects, anticipates, plans, estimates, intends, projects, goals, objectives, or other similar expressions. Our actual results, performance or achiev could be materially different from the results expressed in, or implied by, those forward-looking statements. Those statements are subject to risks and uncertainties, including but not limited to the risks described in this prospectus, any accompanying prospectus supplement and any documents incorporated by reference. When considering those forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements made in this prospectus, any accompanying prospectus supplement and the documents incorporated by reference.

A variety of factors could cause our actual results to differ materially from the expected results expressed in our forward-looking statements, including those factors set forth in this prospectus, any accompanying prospectus supplement or the documents incorporated by reference, including the Risk Factors, Business and Management s Discussion and Analysis of Financial Condition and Results of Operations section of our reports and other documents filed with the SEC. Factors that may cause our actual results to differ materially from those we contemplate by the forward-looking statements include, among others, the following possibilities:

- inability to maintain and improve the overall profitability of our operations;
- inability to identify and effectively execute productivity improvements and cost reductions, while minimizing any associated restructuring charges;
- inability to limit the impact of steel and other commodity and material price inflation through price increases and other measures;
- inability to capitalize on future acquisition opportunities and fund other initiatives;
- inability to invest in routine business needs;

inability to continue improvements in working capital;

the risk that the cost savings and other synergies anticipated to be realized from our combination with The Black & Decker Corporation (the merger) (as well as future acquisitions) may not be fully realized or may take longer to realize than expected;

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disruption from the merger making it difficult to maintain relationships with customers, employees or suppliers;

failure to identify, complete and integrate acquisitions, or to integrate existing businesses, while limiting associated costs;

inability to limit restructuring and other payments associated with recent acquisitions;

inability to minimize costs associated with any sale or discontinuance of a business or product line, including any asset impairment, severance, restructuring, legal or other costs;

the extent to which we have to write off accounts receivable or assets or experience supply chain disruptions in connection with bankruptcy filings by our customers or suppliers;

inability to generate free cash flow and maintain a strong debt to capital ratio, including focusing on reduction of debt as determined by management;

inability to successfully settle routine tax audits;

inability to generate earnings sufficient to realize future income tax benefits during periods when temporary differences become deductible;

continued acceptance of technologies used in our products and services;

failure of our efforts to build a growth platform and market leadership in Convergent Securities Solutions;

inability to manage existing Sonitrol franchisee and Mac Tools distributor relationships;

failure of our efforts to expand our tools and security businesses;

continued access to credit markets on favorable terms, and the maintenance by us of an investment grade credit rating;

inability to negotiate satisfactory payment terms for the purchase and sale of goods, material and products;

inability to sustain the success of our marketing and sales efforts, including our ability to recruit and retain an adequate sales force and to maintain our customer base;

inability of the sales force to adapt to any changes made in the sales organization and achieve adequate customer coverage;

inability to develop and introduce new and high quality products, grow sales in existing markets, identify and develop new markets for our products and maintain and build the strength of our brands;

loss of significant volumes of sales from our larger customers;

inability to maintain or improve current production rates in our manufacturing facilities, to respond to significant changes in product demand, or to fulfill demand for new and existing products;

inability to implement, manage and maintain our operating systems effectively;

inability to continue successfully managing and defending claims and litigation;

pricing pressure and other changes within competitive markets;

increasing competition;

continued consolidation of customers, particularly in consumer channels;

inventory management pressures on our customers;

changes in laws, regulations and policies that affect us, including, but not limited to trade, monetary, tax and fiscal policies and laws;

risks relating to environmental matters, including changes in the estimated costs to remediate historical contamination and resolve related litigation;

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- risks arising out of changes in environmental laws, including laws that may affect the content or production of our products;

- the final geographic distribution of future earnings and the effect of currency exchange fluctuations and impact of dollar/foreign currency exchange and interest rates on the competitiveness of products, our debt program and our cash flow;

- the strength of the United States and European economies;

- the impact the tightened credit markets may have on the Company or its customers or suppliers;

- 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 our manufacturing, distribution and sales networks, such as war, terrorist activities, political unrest, and recessionary or expansive trends in world economies in which we operate, including, but not limited to, the extent and duration of the current recession in the United States economy; and

- inability to mitigate cost increases (such as customer price increases) generated by, for example, continued increases in the cost of energy or significant Chinese Renminbi or other currency appreciation or revaluation.

There can be no assurance that other factors not currently anticipated by us will not materially and adversely affect our business, financial condition, and results of operations. You are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Please take into account that forward-looking statements speak only as of the date of this prospectus or, in the case of any accompanying prospectus supplement or documents incorporated by reference, the date of any such document. We do not undertake any obligation to publicly correct or update any forward-looking statement if we later become aware that it is not likely to be achieved. You are advised, however, to consult any further disclosures we make on related subjects in reports to the SEC.

STANLEY BLACK & DECKER, INC.

Stanley Black & Decker, Inc. (formerly known as The Stanley Works) was founded in 1843 by Frederick T. Stanley and incorporated in 1852. We are a diversified global supplier of hand tools, power tools and related accessories, engineered fastening systems, mechanical access solutions and electronic security solutions.

Our principal executive office is located at 1000 Stanley Drive, New Britain, Connecticut 06053 and our telephone number is (860) 225-5111.

On March 12, 2010, we completed our combination with The Black & Decker Corporation, a Maryland corporation (Black & Decker). Black & Decker, now our wholly owned subsidiary, is a leading global manufacturer and marketer of power tools and accessories, hardware and home improvement products, and technology-based fastening systems. With products and services marketed in over 100 countries, Black & Decker enjoys worldwide recognition of its strong brand names and a superior reputation for quality, design, innovation and value.

ABOUT THE GUARANTORS

The guarantors of the debt securities may include Black & Decker, which is a direct subsidiary of Stanley Black & Decker, Inc. If so provided in a prospectus supplement, the guarantor will fully and unconditionally guarantee on a joint and several basis our obligations under the debt securities, subject to the terms described in such prospectus supplement.

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RISK FACTORS

Investing in our securities involves risk. See the risk factors described in our Annual Report on Form 10-K (together with any material changes thereto contained in subsequent filed Quarterly Reports on Form 10-Q) and those contained in our other filings with the SEC for our most recent fiscal year, which are incorporated by reference in this prospectus and any accompanying prospectus supplement. Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this prospectus. These risks could materially affect our business, results of operations or financial condition and cause the value of our securities to decline. You could lose all or part of your investment.

USE OF PROCEEDS

Except as otherwise set forth in the prospectus and any accompanying prospectus supplement, we expect to use the net proceeds from the sale of securities for general corporate purposes, including the financing of our operations, the possible repayment of indebtedness, and possible business acquisitions. Pending any specific application, we may initially invest funds in short-term marketable securities or apply them to the reduction of short-term indebtedness.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the periods indicated is set forth below. For purposes of computing these ratios, earnings represents income from continuing operations before income taxes and fixed charges. Fixed charges are the sum of (i) interest expensed and capitalized, (ii) amortized premiums, discounts and capitalized expenses related to indebtedness, and (iii) the portion of rents representative of interest.

		For the Fiscal Year				
	Six Months Ended July 3, 2010 (b)	2009	2008	2007	2006	2005
Ratio of Earnings to Fixed Charges	(a)	5.0X	3.9X	5.2X	5.5X	8.4X

(a) Earnings for the six months ended July 3, 2010 were inadequate to cover fixed charges. Additional earnings of $93 million for the six months ended July 3, 2010 would have been necessary to bring the respective ratio to 1.0.

(b) As reported in Item 2 Managements Discussion and Analysis of Financial Condition and Results of Operations of Company s Form 10-Q for the quarterly period ended July 3, 2010, the Company reported $442 million in pre-tax merger-related charges for the six months ended July 3, 2010 related to the March 12, 2010 merger with Black & Decker. Excluding these charges, the Ratio of Earnings to Fixed Charges for the Six Months Ended July 3, 2010 would be 7.5X.

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DESCRIPTION OF SECURITIES

This prospectus contains summary descriptions of the debt securities, guarantees of debt securities, common stock, preferred stock, warrants, depositary shares, stock purchase contracts and stock purchase units that may be offered and sold from time to time. These summary descriptions are not meant to be complete descriptions of each security. However, at the time of an offering and sale, this prospectus together with the accompanying prospectus supplement will contain the material terms of the securities being offered.

DESCRIPTION OF DEBT SECURITIES

As used in this prospectus, debt securities means the debentures, notes, bonds and other evidences of indebtedness that we may issue separately, upon exercise of a debt warrant, in connection with a stock purchase contract or as part of a stock purchase unit from time to time. The debt securities may either be senior debt securities or subordinated debt securities. Senior debt securities may be issued under a Senior Indenture and subordinated debt securities may be issued under a Subordinated Indenture. This prospectus sometimes refers to the Senior Indenture and the Subordinated Indenture collectively as the Indentures. The Indentures have been filed with the SEC and are incorporated by reference in the registration statement on Form S-3 of which this prospectus forms a part. We may also issue debt securities under a separate, new indenture. If that occurs, we will describe any differences in the terms of any series or issue of debt securities in the prospectus supplement relating to that series or issue.

The following briefly summarizes the material provisions of the Indentures and the debt securities, other than pricing and related terms disclosed in the accompanying prospectus supplement or pricing supplement, as the case may be. You should read the more detailed provisions of the applicable Indenture, including the defined terms, for provisions that may be important to you. You should also read the particular terms of an offering of debt securities, which will be described in more detail in the applicable prospectus supplement or pricing supplement, as the case may be. Copies of the Indentures may be obtained from Stanley Black & Decker, Inc. or the applicable trustee.

As used in this Description of Debt Securities, the terms Stanley Black & Decker, Inc., we, our and us refer to Stanley Black & Decker, Inc. Connecticut corporation, and do not, unless otherwise specified, include our subsidiaries.

General

The debt securities will be our direct unsecured obligations. The senior debt securities will rank equally with all of our other senior unsecured and unsubordinated debt. The subordinated debt securities will be subordinate and junior in right of payment to all of our present and future senior indebtedness to the extent and in the manner set forth in the Subordinated Indenture.

Since our operations are partially conducted through our subsidiaries, the cash flow and the consequent ability to service our indebtedness, including the debt securities, is partially dependent upon the earnings of our subsidiaries and the distribution of those earnings or upon the payments of funds by those subsidiaries to us. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the debt securities or to make funds available to us, whether by dividends, loans or other payments. In addition, the payment of dividends and the making of loans and advances to us by our subsidiaries may be subject to contractual or statutory restrictions, are contingent upon the earnings of those subsidiaries and are subject to various business considerations. Any right we may have to receive assets of any of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of our debt securities to participate in those assets) will be effectively subordinated to the claims of such subsidiary s creditors, including trade creditors.

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The Indentures do not limit the aggregate principal amount of debt securities that we may issue and provide that we may issue debt securities from time to time in one or more series, in each case with the same or various maturities, at par or at a discount. We may issue additional debt securities of a particular series without the consent of the holders of the debt securities of such series outstanding at the time of the issuance. Any such additional debt securities, together with all other outstanding debt securities of that series, will constitute a single series of debt securities under the applicable Indenture. The Indentures also do not limit our ability to incur other debt.

Each prospectus supplement will summarize the material terms relating to the specific series of debt securities being offered. These terms may include some or all of the following:

- the title of debt securities, whether they are subordinated debt securities or senior debt securities and whether any of our subsidiaries will provide a guarantee of our obligations under the debt securities;
- any limit on the aggregate principal amount of the debt securities;
- the price or prices at which we will sell the debt securities;
- the maturity date or dates of the debt securities;
- the rate or rates of interest, if any, which may be fixed or variable, at which the debt securities will bear interest, or the method of determining such rate or rates, if any;
- the date or dates from which any interest will accrue or the method by which such date or dates will be determined;
- the right, if any, to extend the interest payment periods and the duration of any such deferral period, including the maximum consecutive periods during which interest payment periods may be extended;
- whether the amount of payments of principal of (and premium, if any) or interest on the debt securities may be determined with reference to any index, formula or other method, such as one or more currencies, commodities, equity indices or other indices, and the manner of determining the amount of such payments;
- the dates on which we will pay interest on the debt securities and the regular record date for determining who is entitled to the interest payable on any interest payment date;
- the place or places where the principal of (and premium, if any) and interest on the debt securities will be payable;
- if we possess the option to do so, the periods within which and the prices at which we may redeem the debt securities, in whole or in part, pursuant to optional redemption provisions, and the other terms and conditions of any such provisions;
- our obligation, if any, to redeem, repay or purchase debt securities by making periodic payments to a sinking fund or through an analogous provision or at the option of holders of the debt securities, and the period or periods within which and the price or prices at

which we will redeem, repay or purchase the debt securities, in whole or in part, pursuant to such obligation, and the other terms and conditions of such obligation;

the denominations in which the debt securities will be issued, if other than denominations of $1,000 and integral multiples of $1,000;

the portion, or methods of determining the portion, of the principal amount of the debt securities which we must pay upon the acceleration of the maturity of the debt securities in connection with an Event of Default (as described below), if other than the full principal amount;

the currency, currencies or currency unit in which we will pay the principal of (and premium, if any) or interest, if any, on the debt securities, if not United States dollars;

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provisions, if any, granting special rights to holders of the debt securities upon the occurrence of specified events;

any deletions from, modifications of or additions to the Events of Default or our covenants with respect to the applicable series of debt securities, and whether or not such Events of Default or covenants are consistent with those contained in the applicable Indenture;

the application, if any, of the terms of the Indenture relating to defeasance and covenant defeasance (which terms are described below) to the debt securities;

whether the subordination provisions summarized below or different subordination provisions will apply to the debt securities;

the terms, if any, upon which the holders may convert or exchange the debt securities into or for our common stock, preferred stock or other securities or property;

whether any of the debt securities will be issued in global form and, if so, the terms and conditions upon which global debt securities may be exchanged for certificated debt securities;

any change in the right of the trustee or the requisite holders of debt securities to declare the principal amount thereof due and payable because of an Event of Default;

the depositary for global or certificated debt securities;

any special tax implications of the debt securities;

any trustees, authenticating or paying agents, transfer agents or registrars or other agents with respect to the debt securities; and

any other terms of the debt securities.

Unless otherwise specified in the applicable prospectus supplement, the debt securities will not be listed on any securities exchange and will be issued in fully-registered form without coupons.

Debt securities may be sold at a substantial discount below their stated principal amount, bearing no interest or interest at a rate which at the time of issuance is below market rates. The applicable prospectus supplement will describe the federal income tax consequences and special considerations applicable to any such debt securities. The debt securities may also be issued as indexed securities or securities denominated in foreign currencies, currency units or composite currencies, as described in more detail in the prospectus supplement relating to any of the particular debt securities. The prospectus supplement relating to specific debt securities will also describe any special considerations and certain additional tax considerations applicable to such debt securities.

Subordination

The prospectus supplement relating to any offering of subordinated debt securities will describe the specific subordination provisions, including the extent of subordination of payments by us of the principal of, premium, if any, and interest on such subordinated debt securities.

The Subordinated Indenture does not limit the issuance of additional Senior Indebtedness.

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Certain Covenants

Except as set forth below or in any indenture supplemental to the Indentures or in a board resolution of ours establishing a series of securities under the Indentures, the Indentures will not:

limit the amount of indebtedness or lease obligations that may be incurred by us and our subsidiaries; or

contain provisions which would give holders of the notes the right to require us to repurchase their notes in the event of a decline in the credit rating of our debt securities resulting from a change in control, recapitalization or similar restructuring or in the case of any other event.

Limitation on Liens

The Senior Indenture provides that if we or any Restricted Subsidiary (as described below) shall issue, assume or guarantee any evidence of indebtedness for money borrowed (Indebtedness) secured by a mortgage, security interest, pledge or lien (Mortgage) on any Principal Property (as described below), or shares of stock or Indebtedness of any Restricted Subsidiary, we will secure or cause such Restricted Subsidiary to secure any debt securities issued under the Senior Indenture (the Senior Securities) equally and ratably with such secured Indebtedness, unless the aggregate amount of all such secured Indebtedness, together with all Attributable Debt (as described below) outstanding pursuant to the first paragraph of the Limitation on Sale and Lease-back Transactions covenant described below, would not exceed 10% of Consolidated Net Worth. The Subordinated Indenture does not contain a similar limitation on liens.

Such limitation will not apply to Indebtedness secured by (a) Mortgages on property of any corporation existing at the time such corporation becomes a Restricted Subsidiary, (b) Mortgages on any property existing at the date of the indenture or at the time of acquisition by us or a Restricted Subsidiary (including acquisition through merger or consolidation), (c) Mortgages securing Indebtedness of a Restricted Subsidiary to us or to another Restricted Subsidiary, (d) purchase money and construction Mortgages entered into within specified time limits, (e) mechanics liens, tax liens, liens in favor of any governmental body to secure progress, advance or other payments or the acquisition of real or personal property from any governmental body pursuant to contract or provision of statute, any other liens, charges and encumbrances incidental to construction, conduct of business or ownership of property of ours or any Restricted Subsidiary which were not incurred in connection with borrowing money, obtaining advances or credits or the acquisition of property and in the aggregate do not materially impair use of any Principal Property or which are being contested in good faith, or (f) any extension, renewal or replacement of any of the aforementioned Mortgages not in excess of the principal amount of such Indebtedness plus the fee incurred in connection with such transaction.

Limitation on Sale and Lease-back Transactions

The Senior Indenture provides that neither we nor any Restricted Subsidiary may enter into any sale and lease-back transaction involving any Principal Property unless the aggregate amount of all Attributable Debt with respect to such transactions, together with all Indebtedness outstanding pursuant to the first paragraph of the Limitation on Liens covenant described above, would not exceed 10% of Consolidated Net Worth (as described below).

Such limitation will not apply to any sale and lease-back transaction if (a) the lease is for a period of not more than three years, (b) the purchaser s commitment is obtained within a specified period after the acquisition, construction or placing in service of the Principal Property, (c) the rent payable pursuant to such lease is to be reimbursed under a contract with the United States Government or instrumentality or agency thereof, (d) the transaction is between us and a Restricted Subsidiary or between Restricted Subsidiaries, (e) we or such Restricted Subsidiary would be entitled as described in Limitation on Liens, above, to mortgage such Principal Property without equally and ratably securing the Senior Securities, or (f) we or such Restricted Subsidiary,

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within 180 days after the effective date of the transaction, apply to the retirement of Senior Securities or other Indebtedness of ours or a Restricted Subsidiary an amount equal to (A) either (i) the lesser of the net proceeds of the sale or transfer or the book value at the date of such sale or transfer of the Principal Property leased, if the transaction is for cash, or (ii) the fair market value of the Principal Property leased, if the transaction is for other than cash, minus (B) the amount equal to the principal amount of Senior Securities delivered to the trustee within such 180 days for cancellation and the principal amount of Indebtedness voluntarily retired (including any premium or fee paid in connection therewith) within such 180 days.

Consolidation, Merger and Sale of Assets

We may consolidate or merge with or into any other corporation, and we may sell or transfer all or substantially all of our assets to another corporation, provided, among other things, that (a) the corporation formed by or resulting from any such consolidation or merger or the transferee of such assets shall be a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia and shall expressly assume by supplemental indenture payment of the principal of and premium, if any, and interest, if any, on the debt securities issued under either the Senior Indenture or the Subordinated Indenture and the performance and observance of the Indenture and (b) we or such successor corporation shall not immediately thereafter be in default under the Indenture.

Definition of Certain Terms

Restricted Subsidiary means a Subsidiary (as described below) (i) substantially all the property of which is located, or substantially all the business of which is carried on, within the United States, and (ii) which owns a Principal Property; provided, however, that the term shall not include any Subsidiary which is solely or primarily engaged in the business of providing or obtaining financing for the sale or lease of products sold or leased by us or any Subsidiary or which is primarily engaged in the business of a finance company either on a secured or an unsecured basis.

Principal Property means all real property and tangible personal property constituting a manufacturing plant located within the United States owned by us or a Restricted Subsidiary, exclusive of (i) motor vehicles, mobile materials-handling equipment and other rolling stock, (ii) office furnishings and equipment, information and electronic data processing equipment, (iii) any property financed through obligations issued by a state or possession of the United States, or any political subdivision or instrumentality of the foregoing, on which the interest is not, in the opinion of tax counsel of recognized standing or in accordance with a ruling issued by the Internal Revenue Service, includable in gross income of the holder by reason of Section 103(a) of the Internal Revenue Code (or any successor to such provision) as in effect at the time of the issuance of such obligations, (iv) any real property held for development or sale, or (v) any property the gross book value of which (including related land and improvements thereon and all machinery and equipment included therein without deduction of any depreciation reserves) is less than 10% of Consolidated Net Worth or which our board of directors determines is not material to the operation of our business and our Subsidiaries taken as a whole.

Consolidated Net Worth means the excess over current liabilities of all assets properly appearing on our consolidated balance sheet after deducting the minority interests of others in Subsidiaries.

A Subsidiary is defined to mean any corporation of which at least a majority of all outstanding stock having ordinary voting power in the election of directors of such corporation is at the time, directly or indirectly, owned by us or by one or more Subsidiaries of ours or by us and one or more Subsidiaries.

Attributable Debt in respect of any Sale and Lease-Back Transaction means, as of the time of the determination, the lesser of (i) the sale price of the Principal Property so leased multiplied by a fraction the numerator of which is the remaining portion of the base term of the lease included in such transaction and the denominator of which is the base term of such lease, and (ii) the total obligation (discounted to present value at

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the implicit interest factor, determined in accordance with generally accepted financial practice, included in the rental payments or, if such interest factor cannot readily be determined, at a rate of interest of 10% per annum, compounded semi-annually) of the lessee for rental payments (other than amounts required to be paid on account of property taxes as well as maintenance, repairs, insurance, water rates and other items which do not constitute payments for property rights) during the remaining portion of the base term of lease included in such transaction.

Events of Default

The following events are defined in the Indentures as Events of Default :

- default in the payment of any installment of interest on any debt securities in such series for 30 days after becoming due;
- default in the payment of principal or premium, if any, of any debt securities in such series when due;
- default in the performance of any other covenant for 90 days after notice;
- involuntary acceleration of the maturity of our indebtedness in excess of $10 million for money borrowed which acceleration shall not be rescinded or annulled or otherwise cured, or which indebtedness shall not be discharged, within 10 days after notice;
- entry of certain court orders which would require us to make payments exceeding $25 million and where 60 days have passed since the entry of the order without it having been satisfied or stayed;
- certain events of bankruptcy, insolvency or reorganization; and
- any other Event of Default that may be set forth in the supplemental indenture or board resolution with respect to a particular series of debt securities.

If an Event of Default shall occur and be continuing with respect to a series of debt securities, either the trustee or the holders of at least 25% in principal amount of the outstanding debt securities (or such lesser amount as may be provided for in the debt securities of such series) of such series may declare the entire principal amount of all the debt securities of such series to be due and payable.

The Indentures provide that the trustee shall, within 90 days after the occurrence of default with respect to a particular series of debt securities, give the holders of the debt securities of such series notice of such default known to it (the term default to mean the events specified above without grace periods); provided that, except in the case of default in the payment of principal or premium, if any, or interest, if any, on any of the debt securities of such series, the trustee shall be protected in withholding such notice if it in good faith determines the withholding of such notice is in the interest of the holders of the debt securities of such series.

We are required to furnish the trustee annually a statement by certain of our officers to the effect that to the best of their knowledge we are not in default in the fulfillment of any of our obligations under the Indentures or, if there has been a default in the fulfillment of any such obligation, specifying each such default. No holder of any debt securities of any particular series shall have any right to institute any judicial or other proceeding with respect to the Indentures, or for the appointment of a receiver or trustee, or for any other remedy unless:

- an Event of Default shall have occurred and be continuing and such holder shall have given the trustee prior written notice of such continuing Event of Default;

the holders of not less than 25% of the outstanding principal amount of debt securities of a particular series shall have requested the trustee for such series to institute proceedings in respect of such Event of Default;

the trustee shall have been offered reasonable indemnity against its costs, expenses and liabilities in complying with such request;

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the trustee shall have failed to institute proceedings 60 days after the receipt of such notice, request and offer of indemnity; and

no direction inconsistent with such written request shall have been given for 60 days by the holders of a majority in principal amount of the outstanding debt securities of such series.

The holders of a majority in principal amount of a particular series of debt securities outstanding will have the right, subject to certain limitations, to direct the time, method and place of conducting any proceeding for any remedy available to the trustee with respect to such series or exercising any trust or power conferred to the trustee, and to waive certain defaults. The Indentures provide that in case an Event of Default shall occur and be continuing, the trustee shall exercise such of its rights and powers under the Indentures, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the Indentures at the request of any of the holders of debt securities of a particular series unless they shall have offered to the trustee security or indemnity reasonably satisfactory to the trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request.

Discharge, Defeasance and Covenant Defeasance

If indicated in the applicable prospectus supplement, we may discharge or defease our obligations under each Indenture as set forth below.

We may discharge certain obligations to holders of any series of debt securities issued under either the Senior Indenture or the Subordinated Indenture which have not already been delivered to the trustee for cancellation and which have either become due and payable or are by their terms due and payable within one year (or scheduled for redemption within one year) by irrevocably depositing with the trustee funds or government obligations denominated in U.S. dollars or in the foreign currency in which debt securities of such series are payable in an amount sufficient to pay the entire indebtedness on debt securities of such series with respect to principal (and premium and additional amounts, if any) and interest to the date of such deposit (if debt securities of such series have become due and payable) or to the maturity thereof or the date of redemption of debt securities of such series, as the case may be.

If indicated in the applicable prospectus supplement, we may elect either (i) to defease and be discharged from any and all obligations with respect to the debt securities of or within any series (except for, among other things, the obligation to pay additional amounts, if any, upon the occurrence of certain events of taxation, assessment or governmental charge with respect to payments on debt securities of such series and other obligations to register the transfer or exchange of debt securities of such series, to replace temporary or mutilated, destroyed, lost or stolen debt securities, to maintain an office or agency with respect to the debt securities and to hold moneys for payment in trust) (defeasance) or (ii) to be released from our obligations with respect to certain covenants applicable to the debt securities of or within any series of debt securities and any omission to comply with such obligations shall not constitute an Event of Default with respect to such series of debt securities (covenant defeasance), upon the deposit with the relevant Indenture trustee, in trust for such purpose, of money and/or government obligations which through the payment of principal and interest in accordance with their terms will provide money in an amount sufficient, without reinvestment, to pay the principal of (and premium, if any) or interest on such debt securities to maturity. As a condition to defeasance or covenant defeasance, we must deliver to the trustee an opinion of counsel to the effect that the holders of such debt securities will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance or covenant defeasance and will be subject to federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance had not occurred. Such opinion of counsel, in the case of defeasance under clause (i) above, must refer to and be based upon a ruling of the Internal Revenue Service or a change in applicable federal income tax law occurring after the date of the relevant Indenture. In addition, in the case of either defeasance or covenant defeasance, we

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must deliver to the trustee (i) an opinion of counsel stating that the money and government obligations or other property deposited with the trustee to be held in trust will not be subject to any case or proceeding under any Federal or State bankruptcy, insolvency, reorganization or other similar law, or any decree or order for relief, and (ii) an officers certificate and an opinion of counsel, each stating that all conditions precedent with respect to such defeasance or covenant defeasance have been complied with.

We may exercise our defeasance option with respect to such debt securities notwithstanding our prior exercise of our covenant defeasance option.

Modification and Waiver

Modification and amendments of the indenture may be made by us and the trustee with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding debt securities of each series affected thereby; provided, however, that no such modification or amendment may, without the consent of the holder of each outstanding debt security affected thereby:

- change the stated maturity of the principal of, or any premium or installment of interest on, or any additional amounts with respect to, debt securities of any series,
- reduce the principal amount of, or the rate (or modify the calculation of such rate) of interest on, or any additional amounts with respect to, or any premium payable upon the redemption of, debt securities of any series,
- change our obligation to pay additional amounts with respect to debt securities of any series or reduce the amount of the principal of an original issue discount debt securities that would be due and payable upon a declaration of acceleration of the maturity thereof or the amount thereof provable in bankruptcy,
- change the redemption provisions of debt securities of any series or adversely affect the right of repayment at the option of any holder of debt securities of any series,
- change the place of payment or the coin or currency in which the principal of, any premium or interest on or any additional amounts with respect to debt securities of any series is payable,
- impair the right to institute suit for the enforcement of any payment on or after the stated maturity of debt securities of any series,
- reduce the percentage in principal amount of an outstanding series of debt securities, the consent of whose holders is required in order to take certain actions,
- reduce the requirements for quorum or voting by holders of a particular series of debt securities in Section 15.4 of the Indentures,
- modify any of the provisions in the Indentures regarding the waiver of past defaults and the waiver of certain covenants by the holders of a particular series of debt securities except to increase any percentage vote required or to provide that certain other provisions of the Indentures cannot be modified or waived without the consent of the holder of each debt security of such series affected thereby,

make any change that adversely affects the right to convert or exchange any series of debt security into or for our common stock or other securities in accordance with its terms, or

modify any of the above provisions.

The holders of at least a majority in aggregate principal amount of the debt securities of any series may, on behalf of the holders of all debt securities of such series, waive our compliance with certain restrictive provisions of the applicable Indenture. The holders of not less than a majority in aggregate principal amount of the outstanding debt securities of any series may, on behalf of the holders of all debt securities of such series, waive any past default and its consequences under the Indenture with respect to the debt securities of such series, except a default:

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in the payment of principal of (or premium, if any), any interest on or any additional amounts with respect to debt securities of such series; or

in respect of a covenant or provision of the indenture that cannot be modified or amended without the consent of the holder of each debt security of any series.

Under the Indentures, we are required to furnish the trustee annually a statement as to performance by us of certain of our obligations under the Indentures and as to any default in such performance. We are also required to deliver to the trustee, within five days after occurrence thereof, written notice of any Event of Default or any event which after notice or lapse of time or both would constitute an Event of Default.

Payment and Paying Agents

Unless otherwise indicated in the applicable prospectus supplement, payment of interest on a debt security on any interest payment date will be made to the person in whose name a debt security is registered at the close of business on the record date for the interest.

Unless otherwise indicated in the applicable prospectus supplement, principal, interest and premium on the debt securities of a particular series will be payable at the office of such paying agent or paying agents as we may designate for such purpose from time to time. Notwithstanding the foregoing, at our option, payment of any interest may be made by check mailed to the address of the person entitled thereto as such address appears in the security register.

Unless otherwise indicated in the applicable prospectus supplement, a paying agent designated by us and located in the Borough of Manhattan, The City of New York will act as paying agent for payments with respect to debt securities of each series. All paying agents initially designated by us for the debt securities of a particular series will be named in the applicable prospectus supplement. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that we will be required to maintain a paying agent in each place of payment for the debt securities of a particular series.

All moneys paid by us to a paying agent for the payment of the principal, interest or premium on any debt security which remain unclaimed at the end of two years after such principal, interest or premium has become due and payable will be repaid to us upon request, and the holder of such debt security thereafter may look only to us for payment thereof.

Denominations, Registrations and Transfer

Unless an accompanying prospectus supplement states otherwise, debt securities will be represented by one or more global certificates registered in the name of a nominee for The Depository Trust Company, or DTC. In such case, each holder s beneficial interest in the global securities will be shown on the records of DTC and transfers of beneficial interests will only be effected through DTC s records.

A holder of debt securities may only exchange a beneficial interest in a global security for certificated securities registered in the holder s name if:

DTC notifies us that it is unwilling or unable to continue serving as the depositary for the relevant global securities or DTC ceases to maintain certain qualifications under the Exchange Act and no successor depositary has been appointed for 90 days; or

We determine, in our sole discretion, that the global security shall be exchangeable.

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If debt securities are issued in certificated form, they will only be issued in the minimum denomination specified in the accompanying prospectus supplement and integral multiples of such denomination. Transfers and exchanges of such debt securities will only be permitted in such minimum denomination. Transfers of debt securities in certificated form may be registered at the trustee s corporate office or at the offices of any paying agent or trustee appointed by us under the Indentures. Exchanges of debt securities for an equal aggregate principal amount of debt securities in different denominations may also be made at such locations.

Governing Law

The Indentures are and debt securities will be governed by, and construed in accordance with, the internal laws of the State of New York, without regard to its principles of conflicts of laws (other than Section 5-1401 of the General Obligations Law of the State of New York).

Regarding the Trustee

The Senior Indenture Trustee is The Bank of New York Mellon Trust Company, N.A., as successor trustee to JP Morgan Chase Bank N.A., and the Subordinated Indenture Trustee is HSBC Bank USA, National Association. The Trustees are permitted to engage in other transactions with us and our subsidiaries from time to time, provided that if the trustees acquire any conflicting interest they must eliminate such conflict upon the occurrence of an Event of Default, or else resign.

Conversion or Exchange Rights

The prospectus supplement will describe the terms, if any, on which a series of debt securities may be convertible into or exchangeable for our common stock, preferred stock or other debt securities. These terms will include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option. These provisions may allow or require the number of shares of our common stock or other securities to be received by the holders of such series of debt securities to be adjusted.

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DESCRIPTION OF GUARANTEES OF OUR DEBT SECURITIES

Each prospectus supplement will describe any guarantees of debt securities for the benefit of the series of debt securities to which it relates. If so provided in a prospectus supplement, the debt securities will be guaranteed, jointly and severally, by each of the guarantors named in such prospectus supplement on a senior unsecured basis. The obligations of a guarantor under its guarantee will be limited to the extent necessary to prevent the obligations of such guarantor from constituting a fraudulent conveyance or fraudulent transfer under federal or state law.

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DESCRIPTION OF CAPITAL STOCK

General

The following summary description of our capital stock is based on the provisions of the Connecticut Business Corporation Act, or CBCA, our restated certificate of incorporation, as amended, and our bylaws, as amended. This description does not purport to be complete and is qualified in its entirety by reference to the full text of the CBCA, and to the terms of the restated certificate of incorporation and bylaws which are included as exhibits to the registration statement of which this prospectus is a part. See Where You Can Find More Information. As used in this Description of Capital Stock, the terms Stanley Black & Decker, Inc., we, our and us refer to Stanley Black & Decker, Inc., a Connecticut corporation, and do not, unless otherwise specified, include the subsidiaries of this Connecticut corporation.

Our authorized capital stock consists of 300,000,000 shares of common stock, par value $2.50 per share, and 10,000,000 shares of preferred stock, without par value. The number of authorized shares of any class may be increased or decreased by an amendment to our restated certificate of incorporation proposed by our board of directors and approved by a majority of voting shares voted on the issue at a meeting at which a quorum exists.

Common Stock

Each shareholder of record of our common stock is entitled to one vote for each share held on every matter properly submitted to the shareholders for their vote. Holders of our common stock do not have cumulative voting rights. After satisfaction of the dividend rights of holders of preferred stock, holders of common stock are entitled ratably to any dividend declared by the board of directors out of funds legally available for this purpose.

Upon our liquidation, dissolution or winding up, the holders of our common stock are entitled to receive ratably our net assets available, if any, after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock.

Holders of our common stock have no redemption or conversion rights, no sinking fund provisions and no preemptive right to subscribe for or purchase additional shares of any class of our capital stock.

The outstanding shares of our common stock are fully paid and nonassessable, and any shares of common stock issued in an offering pursuant to this prospectus and any shares of common stock issuable upon the exercise of common stock warrants or conversion or exchange of debt securities which are convertible into or exchangeable for our common stock, or in connection with the obligations of a holder of stock purchase contracts to purchase our common stock, when issued in accordance with their terms will be fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Preferred Stock

This section describes the general terms and provisions of preferred stock that we are authorized to issue. The applicable prospectus supplement will describe the specific terms of the shares of preferred stock offered through that prospectus supplement, as well as any general terms described in this section that will not apply to those shares of preferred stock. We will file a copy of the certificate of amendment to our certificate of incorporation that contains the terms of each new series of preferred stock with the Secretary of the State of Connecticut and with the SEC each time we issue a new series of preferred stock. Each such certificate of amendment will establish the number of shares included in a designated series and fix the designation, powers, privileges, preferences and rights of the shares of each series as well as any applicable qualifications, limitations or restrictions. You should refer to the applicable certificate of amendment as well as our certificate of incorporation before deciding to buy shares of our preferred stock as described in the applicable prospectus supplement.

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Our board of directors has been authorized to provide for the issuance of up to 10,000,000 shares of our preferred stock in multiple series without the approval of shareholders. With respect to each series of our preferred stock, our board of directors has the authority to fix the following terms:

- the designation of the series;
- the number of shares within the series;
- whether dividends are cumulative and, if cumulative, the dates from which dividends are cumulative;
- the rate of any dividends, any conditions upon which dividends are payable, and the dates of payment of dividends;
- whether the shares are redeemable, the redemption price and the terms of redemption;
- the amount payable to you for each share you own if we dissolve or liquidate;
- whether the shares are convertible or exchangeable, the price or rate of conversion or exchange, and the applicable terms and conditions;
- any restrictions on issuance of shares in the same series or any other series;
- voting rights applicable to the series of preferred stock; and
- any other rights, priorities, preferences, restrictions or limitations of such series.

Your rights with respect to your shares of preferred stock will be subordinate to the rights of our general creditors. Shares of our preferred stock that we issue in accordance with their terms will be fully paid and nonassessable, and will not be entitled to preemptive rights unless specified in the applicable prospectus supplement.

Our ability to issue preferred stock, or rights to purchase such shares, could discourage an unsolicited acquisition proposal. For example, we could impede a business combination by issuing a series of preferred stock containing class voting rights that would enable the holders of such preferred stock to block a business combination transaction. Alternatively, we could facilitate a business combination transaction by issuing a series of preferred stock having sufficient voting rights to provide a required percentage vote of the shareholders. Additionally, under certain circumstances, our issuance of preferred stock could adversely affect the voting power of the holders of our common stock. Although our board of directors is required to make any determination to issue any preferred stock based on its judgment as to the best interests of our shareholders, our board of directors could act in a manner that would discourage an acquisition attempt or other transaction that some, or a majority, of our shareholders might believe to be in their best interests or in which shareholders might receive a premium for their stock over prevailing market prices of such stock. Our board of directors does not at present intend to seek shareholder approval prior to any issuance of currently authorized stock, unless otherwise required by law or applicable stock exchange requirements.

Anti-Takeover Effects of Provisions of the Certificate of Incorporation, Bylaws and Other Agreements

The rights of our shareholders and related matters are governed by the CBCA, the certificate of incorporation, the bylaws and the Rights Agreement, dated January 19, 2006, which is referred to herein as the Rights Agreement. Provisions of the CBCA, the certificate of incorporation, the bylaws and the Rights Agreement, which are summarized below, may discourage or make more difficult a takeover attempt that shareholders might consider in their best interest. These provisions may also adversely affect prevailing market prices for our common stock.

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Board of Directors

The certificate of incorporation provides that the board of directors will be classified with approximately one-third elected each year. The number of directors will be fixed by the board of directors from time to time. The directors elected by the holders of common stock are divided into three classes, designated class I, class II and class III. Each class consists, as nearly as may be possible, of one-third of the total number of such directors. At each annual meeting of shareholders, successors to the class of directors whose term expires at that annual meeting will be elected for a three-year term. In addition, if the number of directors is changed, any increase or decrease will be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class will hold office for a term that will coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. Any vacancy on the board of directors may be filled by the shareholders or by the board of directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise. The certificate of incorporation also provides that directors elected by the holders of common stock may be removed only for cause by the affirmative vote of at least a majority of the votes entitled to be cast thereon.

Shareholder Action by Written Consent; Special Meetings

Under the CBCA our shareholders may take action by written unanimous consent of holders of all of our shares in lieu of an annual or special meeting. Otherwise, shareholders will only be able to take action at an annual or special meeting called in accordance with the bylaws.

The bylaws provide that special meetings of shareholders may only be called by:

- the chairman of the board,
- the president,
- the secretary, or
- the chairman of the board, the president or the secretary upon the written request of the holders of not less than thirty-five percent (35%) of our outstanding voting stock.

In addition, the CBCA provides that a corporation with a class of voting stock registered under the Exchange Act shall hold a special meeting of shareholders if the holders of thirty-five percent (35%) of the votes entitled to be cast on any issue proposed to be considered demand such a meeting.

Advance Notice Requirements for Director Nominations and Other Proposals

Director Nominations. The bylaws contain advance notice procedures with regard to shareholder proposals related to the nomination of candidates for election as directors. These procedures provide that notice of shareholder proposals related to shareholder nominations for the election of directors must be received at our executive offices at least 90 days, but no more than 120 days before the first anniversary of the date on which the proxy statement for the preceding annual meeting was mailed; provided, however, that in the event the annual meeting is not within 30 days before or after such anniversary date, notice by the shareholder must be received not later than the close of business 10 days after the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever occurs first. Our bylaws require that all directors be shareholders of record.

A shareholder s notice to our corporate secretary must be in proper written form and must set forth certain information including:

- the name, and record addresses of the nominating shareholder, and any other person on whose behalf the nomination is being made, and the nominee;

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the class or series and number of shares of our capital stock which are beneficially or of record owned by the nominating shareholder or such other person;

a description of all arrangements or understandings between the nominating shareholder or such other person and any nominee(s) in connection with the nomination;

any other information relating to the nominee that would be required to be disclosed in a proxy statement or other solicitations of proxies for election of directors or as otherwise required to be disclosed pursuant to the Exchange Act had the nominee been nominated by the board of directors;

a consent of the nominee to be named in the proxy statement and to serve if elected; and

a representation that the nominating shareholder intends to appear in person or by proxy at the meeting to make such nomination.

Other Proposals. In addition to the procedures for nominating directors, the bylaws also contain notice procedures for other shareholder proposals to be brought before an annual meeting. To be timely, we must receive shareholder proposals at least 90 days, but no more than 120 days before the first anniversary of the date on which the proxy statement for the preceding annual meeting was mailed; provided, however, that in the event the annual meeting is not within 30 days before or after such anniversary date, notice by the shareholder must be received not later than the close of business 10 days after the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever occurs first.

A shareholder s notice to our corporate secretary must be in proper written form and must set forth, as to each matter that shareholder proposes to bring before the meeting:

a brief description of the business desired to be brought before the meeting and the reasons for conducting that business at the meeting;

the complete text of any resolutions to be presented;

the name and record address of that shareholder and any other person on whose behalf the proposal is made;

the class and series and number of shares of each class and series of our capital stock which are owned beneficially or of record by that shareholder;

a description of all arrangements or understandings between that shareholder and any such other person in connection with the proposal of that business and any material interest of that shareholder or such other person in that business; and

a representation that the shareholder intends to appear in person or by proxy at the meeting to bring that business before the meeting.

Rights Agreement

On January 19, 2006, our board of directors declared a dividend distribution of one right for each share of our common stock outstanding on the close of business on March 10, 2006 and authorized the issuance of one right (as such number may be adjusted from time to time in accordance with the terms of the Rights Agreement) per share of our common stock issued between March 10, 2006 and the Distribution Date. Each

outstanding share of common stock currently has one half of a share purchase right. Each purchase right may be exercised to purchase one two-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of $220.00, subject to adjustment. The rights, which do not have voting rights, expire on March 10, 2016, and may be redeemed by us at a price of $0.01 per right at any time prior to the earlier of the rights expiration date or the close of business on the tenth day following the public announcement that a person has acquired beneficial ownership of 15% or more of the outstanding shares of common stock.

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In the event that we are acquired in a merger or other business combination transaction, provision shall be made so that each holder of a right (other than a holder who is a 10%-or-more shareowner) shall have the right to receive, upon exercise thereof, that number of shares of common stock of the surviving company having a market value equal to two times the exercise price of the right. Similarly, if anyone becomes the beneficial owner of more than 10% of the then outstanding shares of common stock (except pursuant to an offer for all outstanding shares of common stock which the independent directors have deemed to be fair and in our best interest), provision will be made so that each holder of a right (other than a holder who is a 10%-or-more shareowner) shall thereafter have the right to receive, upon exercise thereof, common stock (or, in certain circumstances, cash, property or our other securities) having a market value equal to two times the exercise price of the right.

Antitakeover Legislation

We are subject to the provisions of Section 33-844 of the CBCA which prohibits a Connecticut corporation from engaging in a business combination with an interested shareholder for a period of five years after the date of the transaction in which the person became an interested shareholder, unless the business combination or the purchase of stock by which such person becomes an interested shareholder is approved by our board of directors, and by a majority of our non-employee directors, prior to the date on which the person becomes an interested shareholder. A business combination generally includes mergers, asset sales, some types of stock issuances and other transactions with, or resulting in a disproportionate financial benefit to, the interested shareholder. Subject to exceptions, an interested shareholder is a person who owns 10% or more of our voting power, or is an affiliate or associate of Stanley Black & Decker, Inc. and owned 10% or more of our voting power within the past five years.

Under our certificate of incorporation, the affirmative vote by the holders of 80% of our outstanding voting stock is required for the approval or authorization of any business combination involving an interested shareholder. This voting requirement does not apply if:

2/3 of our disinterested directors expressly approve the proposed business combination; or

The following conditions are satisfied:

The cash and fair market value of other consideration received on a per share basis by each shareholder is no less than the highest share price (or the equivalent value) paid by the interested shareholder in acquiring our capital stock; and

A proxy statement is mailed to all shareholders of the corporation for the purpose of soliciting shareholder approval of the business combination.

This 80% vote is required even if no vote or a lesser percentage is required by any applicable laws. Additionally, the affirmative vote of the holders of not less than 80% of our outstanding shares of capital stock is required to modify this section of our certificate of incorporation.

Notwithstanding the 80% vote required by our certificate of incorporation, we are also subject to Section 33-841 and Section 33-842 of the CBCA. These provisions generally require business combinations with an interested shareholder to be approved by the board of directors and then by the affirmative vote of at least:

the holders of 80% of the voting power of the outstanding shares of our voting stock; and

the holders of 2/3 of the voting power of the outstanding shares of our voting stock, excluding the voting stock held by the interested shareholder;

unless the consideration to be received by the shareholders meets certain price and other requirements set forth in Section 33-842 of the CBCA or unless the board of directors of the corporation has by resolution determined to exempt business combinations with that interested shareholder prior to the time that such shareholder became an interested shareholder.

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We are also subject to Section 33-756(d) of the CBCA, generally requiring directors acting with respect to mergers, sales of assets and other specified transactions to consider, in determining what they reasonably believe to be in the best interests of the corporation, specified interests, including those of the corporation s employees, customers, creditors and suppliers and any community in which any office or other facility of the corporation is located.

Limitation of Liability of Directors

The certificate of incorporation contains provisions permitted under the CBCA relating to the personal liability of directors. The provisions limit the personal liability to us or our shareholders of a director for monetary damages for breach of duty as a director to an amount that is not more than the compensation received by that director for serving us during the year of the violation. Our bylaws provide for the indemnification and reimbursement of, and advances of expenses to, any person that is made a party to an action by reason of the fact that he or she:

is or was our director, officer, employee or agent, or

served at our request as a director, officer, employee or agent of another corporation.

Our bylaws provide for indemnification of directors and officers to the fullest extent permitted by Connecticut law.

Listing.

Our common stock is listed on the New York Stock Exchange under the symbol SWK.

Transfer Agent and Registrar.

The transfer agent and registrar for our common stock is Computershare Investor Services, LLC.

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DESCRIPTION OF WARRANTS

This section describes the general terms and provisions of our warrants to acquire our securities that we may issue from time to time. The applicable prospectus supplement will describe the terms of any warrant agreements and the warrants issuable thereunder. If any particular terms of the warrants described in the prospectus supplement differ from any of the terms described herein, then the terms described herein will be deemed superseded by that prospectus supplement.

We may issue warrants for the purchase of our debt securities, common stock, preferred stock, depositary shares or securities of third parties or other rights, including rights to receive payment in cash or securities based on the value, rate or price of one or more specified commodities, currencies, securities or indices, or any combination of the foregoing. We may issue warrants independently or together with other securities, and they may be attached to or separate from the other securities. Each series of warrants will be issued under a separate warrant agreement that we will enter into with a bank or trust company, as warrant agent, as detailed in the applicable prospectus supplement. The warrant agent will act solely as our agent in connection with the warrants and will not assume any obligation, or agency or trust relationship, with you. We will file a copy of the warrant and warrant agreement with the SEC each time we issue a series of warrants, and these warrants and warrant agreements will be incorporated by reference into the registration statement of which this prospectus is a part. A holder of our warrants should refer to the provisions of the applicable warrant agreement and prospectus supplement for more specific information.

The prospectus supplement relating to a particular issue of warrants will describe the terms of those warrants, including, when applicable:

- the offering price;
- the currency or currencies, including composite currencies, in which the price of the warrants may be payable;
- the number of warrants offered;
- the securities underlying the warrants, including the securities of third parties or other rights, if any, to receive payment in cash or securities based on the value, rate or price of one or more specified commodities, currencies, securities or indices, or any combination of the foregoing, purchasable upon exercise of the warrants;
- the exercise price and the amount of securities you will receive upon exercise;
- the procedure for exercise of the warrants and the circumstances, if any, that will cause the warrants to be automatically exercised;
- the rights, if any, we have to redeem the warrants;
- the date on which the right to exercise the warrants will commence and the date on which the warrants will expire;
- the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security;
- the date on and after which the warrants and the related securities will be separately transferable;

U.S. federal income tax consequences;

the name of the warrant agent; and

any other material terms of the warrants.

After your warrants expire they will become void. All warrants will be issued in registered form. The prospectus supplement may provide for the adjustment of the exercise price of the warrants.

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Warrants may be exercised at the appropriate office of the warrant agent or any other office indicated in the applicable prospectus supplement. Before the exercise of warrants, holders will not have any of the rights of holders of the securities purchasable upon exercise and will not be entitled to payments made to holders of those securities.

The applicable warrant agreement may be amended or supplemented without the consent of the holders of the warrants to which it applies to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants. However, any amendment that materially and adversely alters the rights of the holders of warrants will not be effective unless the holders of at least a majority of the applicable warrants then outstanding approve the amendment. Every holder of an outstanding warrant at the time any amendment becomes effective, by continuing to hold the warrant, will be bound by the applicable warrant agreement as amended. The prospectus supplement applicable to a particular series of warrants may provide that certain provisions of the warrants, including the securities for which they may be exercisable, the exercise price and the expiration date, may not be altered without the consent of the holder of each warrant.

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DESCRIPTION OF DEPOSITARY SHARES

General

We may offer fractional shares of preferred stock, rather than full shares of preferred stock. If we do so, we may issue receipts for depositary shares that each represent a fraction of a share of a particular series of preferred stock. The prospectus supplement will indicate that fraction. The shares of preferred stock represented by depositary shares will be deposited under a depositary agreement between us and a bank or trust company that meets certain requirements and is selected by us (the Bank Depositary). Each owner of a depositary share will be entitled to all the rights and preferences of the preferred stock represented by the depositary share. The depositary shares will be evidenced by depositary receipts issued pursuant to the depositary agreement. Depositary receipts will be distributed to those persons purchasing the fractional shares of preferred stock in accordance with the terms of the offering.

We have summarized some common provisions of a depositary agreement and the related depositary receipts. The forms of the depositary agreement and the depositary receipts relating to any particular issue of depositary shares will be filed with the SEC each time we issue depositary shares, and you should read those documents for provisions that may be important to you. If any particular terms of the depositary agreements and the related depositary receipts described in the prospectus supplement differ from any of the terms described herein, then the terms described herein will be deemed superseded by that prospectus supplement.

Dividends and Other Distributions

If we pay a cash distribution or dividend on a series of preferred stock represented by depositary shares, the Bank Depositary will distribute such dividends to the record holders of such depositary shares. If the distributions are in property other than cash, the Bank Depositary will distribute the property to the record holders of the depositary shares. However, if the Bank Depositary determines that it is not feasible to make the distribution of property, the Bank Depositary may, with our approval, sell such property and distribute the net proceeds from such sale to the record holders of the depositary shares.

Redemption of Depositary Shares

If we redeem a series of preferred stock represented by depositary shares, the Bank Depositary will redeem the depositary shares from the proceeds received by the Bank Depositary in connection with the redemption. The redemption price per depositary share will equal the applicable fraction of the redemption price per share of the preferred stock. If fewer than all the depositary shares are redeemed, the depositary shares to be redeemed will be selected by lot or pro rata as the Bank Depositary may determine.

Voting the Preferred Stock

Upon receipt of notice of any meeting at which the holders of the preferred stock represented by depositary shares are entitled to vote, the Bank Depositary will mail the notice to the record holders of the depositary shares relating to such preferred stock. Each record holder of these depositary shares on the record date, which will be the same date as the record date for the preferred stock, may instruct the Bank Depositary as to how to vote the preferred stock represented by such holder s depositary shares. The Bank Depositary will endeavor, insofar as practicable, to vote the amount of the preferred stock represented by such depositary shares in accordance with such instructions, and we will take all action that the Bank Depositary deems necessary in order to enable the Bank Depositary to do so. The Bank Depositary will abstain from voting shares of the preferred stock to the extent it does not receive specific instructions from the holders of depositary shares representing such preferred stock.

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Amendment and Termination of the Depositary Agreement

The form of depositary receipt evidencing the depositary shares and any provision of the depositary agreement may be amended by agreement between the Bank Depositary and us. However, any amendment that materially and adversely alters the rights of the holders of depositary shares will not be effective unless such amendment has been approved by the holders of at least a majority of the depositary shares then outstanding. The depositary agreement may be terminated by the Bank Depositary or us only if (1) all outstanding depositary shares have been redeemed or (2) there has been a final distribution in respect of the preferred stock in connection with any liquidation, dissolution or winding up of our company and such distribution has been distributed to the holders of depositary receipts.

Charges of Bank Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay charges of the Bank Depositary in connection with the initial deposit of the preferred stock and any redemption of the preferred stock. Holders of depositary receipts will pay other transfer and other taxes and governmental charges and any other charges, including a fee for the withdrawal of shares of preferred stock upon surrender of depositary receipts, as are expressly provided in the depositary agreement to be for their accounts.

Withdrawal of Preferred Stock

Except as may be provided otherwise in the applicable prospectus supplement, upon surrender of depositary receipts at the principal office of the Bank Depositary, subject to the terms of the depositary agreement, the owner of the depositary shares may demand delivery of the number of whole shares of preferred stock and all money and other property, if any, represented by those depositary shares. Partial shares of preferred stock will not be issued. If the depositary receipts delivered by the holder evidence a number of depositary shares in excess of the number of depositary shares representing the number of whole shares of preferred stock to be withdrawn, the Bank Depositary will deliver to such holder at the same time a new depositary receipt evidencing the excess number of depositary shares. Holders of preferred stock thus withdrawn may not thereafter deposit those shares under the depositary agreement or receive depositary receipts evidencing depositary shares therefor.

Miscellaneous

The Bank Depositary will forward to holders of depositary receipts all reports and communications from us that are delivered to the Bank Depositary and that we are required to furnish to the holders of the preferred stock.

Neither the Bank Depositary nor we will be liable if we are prevented or delayed by law or any circumstance beyond our control in performing our obligations under the depositary agreement. The obligations of the Bank Depositary and us under the depositary agreement will be limited to performance in good faith of our duties thereunder, and we will not be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred stock unless satisfactory indemnity is furnished. We may rely upon written advice of counsel or accountants, or upon information provided by persons presenting preferred stock for deposit, holders of depositary receipts or other persons believed to be competent and on documents believed to be genuine.

Resignation and Removal of Bank Depositary

The Bank Depositary may resign at any time by delivering to us notice of its election to do so, and we may at any time remove the Bank Depositary. Any such resignation or removal will take effect upon the appointment of a successor Bank Depositary and its acceptance of such appointment. The successor Bank Depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company meeting the requirements of the depositary agreement.

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DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS

We may issue stock purchase contracts, including contracts obligating holders to purchase from or sell to us, and obligating us to sell to or purchase from the holders, a specified number of shares of common stock or other securities at a future date or dates, which we refer to in this prospectus as stock purht:120%;text-align:left;font-size:10pt;">*Standards Effective in Future Years*

Leases. In 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)." This standard will require leases with durations greater than twelve months to be recognized on the balance sheet and is effective for interim and annual reporting periods beginning after December 15, 2018. We will adopt this standard effective January 1, 2019.

We have not completed our assessment, but the adoption of this standard will have a significant impact on our Consolidated Balance Sheets. However, we do not expect the adoption to have a significant impact on the recognition, measurement or presentation of lease expenses within the Condensed Consolidated Statements of Operations and Comprehensive Income ("income statement") or the Condensed Consolidated Statements of Cash Flows ("cash flows statement"). Information about our undiscounted future lease payments and the timing of those payments is in Note 7, "Lease Obligations," in our Form 10-K.

Comprehensive Income. In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)." This standard provides an option to reclassify stranded tax effects within accumulated other comprehensive income/(loss) ("AOCI") to retained earnings due to the U.S. federal corporate income tax rate change in the Tax Cuts and Jobs Act of 2017. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. We have not completed our assessment, but the adoption of the standard may impact tax amounts stranded in AOCI related to our pension plans. We will adopt this standard effective January 1, 2019.

Recently Adopted Standards

Revenue from Contracts with Customers. In 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." Under this ASU and subsequently issued amendments, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. We adopted this standard using the full retrospective transition method effective January 1, 2018 and recast prior year results as shown below.

While the adoption of the new standard did not have a significant effect on earnings, approximately $2 billion of certain annual revenues that were previously classified in other revenue have been reclassified to passenger revenue. These revenues include baggage fees, administrative charges and other travel-related fees, which are deemed part of the single performance obligation of providing passenger transportation.

In addition, the adoption of the new standard increases the rate used to account for frequent flyer miles. We previously analyzed our standalone sales of mileage credits to other airlines and customers to establish the accounting value for frequent flyer miles. Considering the guidance in the new standard, we changed our valuation of a mileage credit to an analysis of the award redemption value. The new valuation considers the quantitative value a passenger receives by redeeming miles for a ticket rather than paying cash. This change increased our frequent flyer liability at December 31, 2017 by $2.2 billion. The mileage deferral and redemption rates are approximately the same; therefore, assuming stable volume, there would not be a significant change in revenue recognized from the program in a given period.

The adoption of the new standard also reduced our air traffic liability at December 31, 2017 by $524 million. This change primarily results from estimating the tickets that will expire unused and recognizing revenue at the scheduled flight date rather than when the unused tickets expire.

See Note 2, "Revenue Recognition," for more information.

Statement of Cash Flows. In 2016, the FASB issued ASU Nos. 2016-15 and 2016-18 related to the classification of certain cash receipts and cash payments, and the presentation of restricted cash within an entity's cash flows statement, respectively. We adopted these standards effective January 1, 2018.

Financial Instruments. In 2016, the FASB issued ASU No. 2016-01, "Financial Instruments—Overall (Subtopic 825-10)." This standard makes several changes, including the elimination of the available-for-sale classification of equity investments, and requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. In February 2018, the FASB issued ASU No. 2018-03, "Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)" to clarify certain aspects of ASU No. 2016-01. We adopted these standards effective January 1, 2018.

Our investments in GOL Linhas Aéreas Inteligentes, the parent company of VRG Linhas Aéreas (operating as GOL), and China Eastern were accounted for as available-for-sale with changes in fair value recognized in other comprehensive income. At the time of adoption, we reclassified an unrealized gain of $162 million related to these investments from AOCI to retained earnings.

Our investment in Air France-KLM was accounted for at cost during 2017 as our investment agreement restricts the sale or transfer of these shares for five years. Upon adopting ASU Nos. 2016-01 and 2018-03, we recognized a $148 million gain in unrealized gain/(loss) on investments related to the value of Air France-KLM's stock compared to our investment basis at December 31, 2017. Consistent with our investments in GOL and China Eastern, this investment is now accounted for at fair value with changes in fair value recognized in net income.

Retirement Benefits. In 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715)." This standard requires an entity to report the service cost component in the same line item as other compensation costs. The other components of net (benefit) cost will be required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. We adopted this standard effective January 1, 2018. The components of the net (benefit) cost are shown in Note 7, "Employee Benefit Plans." As a result of the adoption, for the three months ended March 31, 2017, we reclassified $12 million from operating expense into non-operating expense in our income statement.

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Impact of Recently Adopted Standards

We recast certain prior period amounts to conform with the adoption of the revenue recognition and retirement benefits standards, as shown in the tables below.

(in millions, except per share data)	Three Months Ended March 31, 2017 As Previously Reported	Adjustments	Current Presentation
Income statement:			
Passenger revenue	$7,688	$ 490	$ 8,178
Cargo revenue	160	3	163
Other revenue	1,300	(540)	760
Operating expense	8,095	7	8,102
Non-operating expense	(138)	(12)	(150)
Income tax provision	(312)	24	(288)
Net income	603	(42)	561
Diluted earnings per share	$0.82	$ (0.05)	$ 0.77

(in millions)	December 31, 2017 As Previously Reported	Adjustments	Current Presentation
Balance sheet:			
Deferred income taxes, net	$935	$ 419	$ 1,354
Air traffic liability	4,888	(524)	4,364
Frequent flyer deferred revenue (current and noncurrent)	4,118	2,203	6,321
Other accrued and other noncurrent liabilities	3,969	120	4,089
Retained earnings	9,636	(1,380)	8,256

NOTE 2. REVENUE RECOGNITION

Passenger Revenue

Passenger revenue is primarily composed of passenger ticket sales, loyalty travel awards and travel-related services performed in conjunction with a passenger's flight.

	Three Months Ended March 31,	
(in millions)	**2018**	**2017**
Ticket	$7,653	$7,105
Loyalty travel awards	618	582
Travel-related services	494	491
Total passenger revenue	$8,765	$8,178

Ticket

Passenger tickets. We record sales of passenger tickets to be flown by us or that we sell on behalf of other airlines in air traffic liability. Passenger revenue is recognized when we provide transportation or when ticket breakage occurs. For tickets that we sell on behalf of other airlines, we reduce the air traffic liability when consideration is remitted to those airlines. We periodically evaluate the estimated air traffic liability and record any adjustments in our income statement. These adjustments relate primarily to refunds, exchanges, transactions with other airlines and other items for which final settlement occurs in periods subsequent to the sale of the related tickets at amounts other than the original sales price.

We recognized $2.1 billion in passenger revenue during each of the three months ended March 31, 2018 and 2017 that was recorded in our air traffic liability balances of $4.4 billion and $4.1 billion at December 31, 2017 and 2016, respectively. We expect the remaining balance of the December 31, 2017 liability to be recognized during 2018.

Ticket breakage. We estimate the value of tickets that will expire unused and recognize revenue at the scheduled flight date.

Regional carriers. Our regional carriers include both our contract carrier agreements with third-party regional carriers ("contract carriers") and Endeavor Air, Inc. ("Endeavor"), our wholly owned subsidiary. Our contract carrier agreements are primarily structured as capacity purchase agreements where we purchase all or a portion of the contract carrier's capacity and are responsible for selling the seat inventory we purchase. We record revenue related to our capacity purchase agreements in passenger revenue and the related expenses in regional carriers expense, excluding fuel.

Loyalty Travel Awards

Loyalty travel awards revenue is related to the redemption of mileage credits for travel. We recognize loyalty travel award revenue in passenger revenue as mileage credits are redeemed and travel is provided. See below for discussion of our frequent flyer program accounting policies.

Travel-Related Services

Travel-related services are primarily composed of services performed in conjunction with a passenger's flight, including administrative fees (such as ticket change fees), baggage fees and on-board sales. We recognize revenue for these services when the related transportation service is provided. Prior to the adoption of the new standard, the majority of these fees were classified in other revenue.

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Frequent Flyer Program

Our frequent flyer program (the "SkyMiles program") generates customer loyalty by rewarding customers with incentives to travel on Delta. This program allows customers to earn mileage credits by flying on Delta, Delta Connection and airlines that participate in the SkyMiles program. When traveling, customers earn redeemable mileage credits based on the passenger's loyalty program status and travel fare paid. Customers can also earn mileage credits through participating companies such as credit card companies, hotels and car rental agencies. To facilitate transactions with participating companies, we sell mileage credits to non-airline businesses, customers and other airlines. Mileage credits are redeemable by customers in future periods for air travel on Delta and participating airlines, membership in our Sky Club and other program awards.

To reflect the mileage credits earned, the SkyMiles program includes two types of transactions that are considered revenue arrangements with multiple performance obligations: (1) mileage credit earned with travel and (2) mileage credit sold to participating companies.

Passenger ticket sales earning mileage credits. Passenger ticket sales earning mileage credits under our SkyMiles program provide customers with (1) mileage credits earned and (2) air transportation. We value each performance obligation on a standalone basis. To value the mileage credits earned, we consider the quantitative value a passenger receives by redeeming miles for a ticket rather than paying cash, which is referred to as equivalent ticket value ("ETV").

We defer revenue for the mileage credits when earned and recognize loyalty travel awards in passenger revenue as the miles are redeemed and services are provided. We record the air transportation portion of the passenger ticket sales in air traffic liability and recognize passenger revenue when we provide transportation or if the ticket goes unused.

Sale of mileage credits. Customers may earn mileage credits based on their spending with participating companies such as credit card companies, hotels and car rental agencies with which we have marketing agreements to sell mileage credits. Our contracts to sell mileage credits under these marketing agreements have multiple performance obligations. During the three months ended March 31, 2018 and 2017, total cash sales from marketing agreements were $841 million and $757 million, respectively, which are allocated to travel and other performance obligations, as discussed below.

Our most significant contract to sell mileage credits relates to our co-brand credit card relationship with American Express. Our agreements with American Express provide for joint marketing, grant certain benefits to Delta-American Express co-branded credit card holders ("Cardholders") and American Express Membership Rewards program participants, and allow American Express to market using our customer database. Cardholders earn mileage credits for making purchases using co-branded cards, may check their first bag for free, are granted discounted access to Delta Sky Club lounges and receive other benefits while traveling on Delta. Additionally, participants in the American Express Membership Rewards program may exchange their points for mileage credits under the SkyMiles program. We sell mileage credits at agreed-upon rates to American Express which are then provided to their customers under the co-brand credit card program and the Membership Rewards program.

We account for marketing agreements, including American Express, consistent with the accounting method that allocates the consideration received to the individual products and services delivered. We allocate the value based on the relative selling prices of those products and services, which generally consist of award travel, baggage fee waivers, lounge access and the use of our brand. We determined our best estimate of the selling prices by considering discounted cash flow analysis using multiple inputs and assumptions, including: (1) the expected number of miles awarded and number of miles redeemed, (2) ETV for the award travel obligation, (3) published rates on our website for baggage fees, discounted access to Delta Sky Club lounges and other benefits while traveling on Delta and (4) brand value.

We defer the amount for award travel obligation as part of frequent flyer deferred revenue and recognize loyalty travel awards in passenger revenue as the mileage credits are used for travel. Revenue allocated to services performed in conjunction with a passenger's flight, such as baggage fee waivers, is recognized as travel-related services in passenger revenue when the related service is performed. Revenue allocated to access to Delta Sky Club lounges is recognized as miscellaneous in other revenue as access is provided. Revenue allocated to the remaining performance obligations, primarily brand value, is recorded as loyalty program in other revenue over time as miles are delivered.

Mileage breakage. For mileage credits that we estimate are not likely to be redeemed ("breakage"), we recognize the associated value proportionally during the period in which the remaining mileage credits are expected to be redeemed. Management uses statistical models to estimate breakage based on historical redemption patterns. A change in assumptions as to the period over which mileage credits are expected to be redeemed, the actual redemption activity for mileage credits or the estimated fair value of mileage credits expected to be redeemed could have a material impact on our revenue in the year in which the change occurs and in future years.

Current activity of frequent flyer program. Mileage credits are combined in one homogeneous pool and are not separately identifiable. As such, the revenue is comprised of miles that were part of the frequent flyer deferred revenue balance at the beginning of the period as well as miles that were issued during the period.

The table below presents the activity of the current and noncurrent frequent flyer liability, and includes miles earned through travel and miles sold, which are primarily through marketing agreements.

(in millions)	**2018**	**2017**
Balance at January 1	$6,321	$5,922
Travel mileage credits redeemed	(618)	(582)
Non-travel mileage credits redeemed	(40)	(40)
Mileage credits earned	731	690
Balance at March 31	$6,394	$5,990

The timing of mileage redemptions can vary widely; however, the majority of new miles are redeemed within approximately two years.

Passenger Revenue by Geographic Region

Passenger revenue is recognized in a specific geographic region based on the origin and destination of each flight segment. Our passenger revenue by geographic region (as defined by the U.S. Department of Transportation) is summarized in the following table:

	Three Months Ended March 31,	
(in millions)	**2018**	**2017**
Domestic	$6,301	$5,894
Atlantic	1,059	923
Latin America	827	793
Pacific	578	568
Total passenger revenue	$8,765	$8,178

Cargo Revenue

Cargo revenue is recognized when we provide the transportation.

Other Revenue

	Three Months Ended March 31,	
(in millions)	**2018**	**2017**
Ancillary businesses and refinery	$521	$312
Loyalty program	347	305
Miscellaneous	133	143
Total other revenue	$1,001	$760

Ancillary businesses and refinery. Ancillary businesses and refinery includes aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations, our private jet operations and refinery production sales to third parties. Third-party refinery production sales are at or near cost; accordingly, the margin on these sales is de minimis. See Note 10, "Segments," for more information on revenue recognition within our refinery segment.

Loyalty program. Loyalty program revenues relate to brand usage and other performance obligations embedded in mileage credits sold, including non-travel mileage credits redeemed. These revenues are included within the total cash sales from marketing agreements, discussed above.

Miscellaneous. Miscellaneous revenue is primarily composed of lounge access and codeshare revenues.

Accounts Receivable

Accounts receivable primarily consist of amounts due from credit card companies from the sale of passenger tickets, customers of our cargo services, ancillary businesses and refinery sales, and other companies for the purchase of mileage credits under the SkyMiles program. We provide an allowance for uncollectible accounts equal to the estimated losses expected to be incurred based on historical chargebacks, write-offs, bankruptcies and other specific analyses. Bad debt expense was not material in any period presented.

Passenger Taxes and Fees

We are required to charge certain taxes and fees on our passenger tickets, including U.S. federal transportation taxes, federal security charges, airport passenger facility charges and foreign arrival and departure taxes. These taxes and fees are assessments on the customer for which we act as a collection agent. Because we are not entitled to retain these taxes and fees, we do not include such amounts in passenger revenue. We record a liability when the amounts are collected and reduce the liability when payments are made to the applicable government agency or operating carrier (i.e., for codeshare-related fees).

NOTE 3. FAIR VALUE MEASUREMENTS

Assets (Liabilities) Measured at Fair Value on a Recurring Basis

(in millions)	March 31, 2018	Level 1	Level 2
Cash equivalents	$ 876	$876	$ —
Short-term investments			
U.S. government and agency securities	78	66	12
Asset- and mortgage-backed securities	119	—	119
Corporate obligations	247	—	247
Other fixed income securities	79	—	79
Restricted cash equivalents and investments	34	34	—
Long-term investments	1,001	972	29
Hedge derivatives, net			
Fuel hedge contracts	(3)	(5)	2
Foreign currency exchange contracts	(32)	—	(32)

(in millions)	December 31, 2017	Level 1	Level 2
Cash equivalents	$ 1,357	$1,357	$ —
Short-term investments			
U.S. government and agency securities	93	84	9
Asset- and mortgage-backed securities	173	—	173
Corporate obligations	467	—	467
Other fixed income securities	92	—	92
Restricted cash equivalents and investments	38	38	—
Long-term investments	513	485	28
Hedge derivatives, net			

Fuel hedge contracts	(66)	(43)	(23)
Foreign currency exchange contracts	(17)	—	(17)

Cash Equivalents and Restricted Cash Equivalents and Investments. Cash equivalents generally consist of money market funds. Restricted cash equivalents and investments generally consist of money market funds and time deposits, which primarily relate to certain self-insurance obligations and airport commitments. The fair value of these investments is based on a market approach using prices and other relevant information generated by market transactions involving identical or comparable assets.

Short-Term Investments. The fair values of short-term investments are based on a market approach using industry standard valuation techniques that incorporate observable inputs such as quoted market prices, interest rates, benchmark curves, credit ratings of the security and other observable information.

Long-Term Investments. Our long-term investments that are measured at fair value primarily consist of equity investments in the parent company of GOL, China Eastern and, as of January 1, 2018, Air France-KLM. Our investments are valued based on market prices and are classified in other noncurrent assets.

Hedge Derivatives. A portion of our derivative contracts are negotiated over-the-counter with counterparties without going through a public exchange. Accordingly, our fair value assessments give consideration to the risk of counterparty default (as well as our own credit risk). Such contracts are classified as Level 2 within the fair value hierarchy. The remainder of our hedge contracts are comprised of futures contracts, which are traded on a public exchange. These contracts are classified within Level 1 of the fair value hierarchy.

Fuel Contracts. Our fuel hedge portfolio consists of options, swaps and futures. The hedge contracts include crude oil and refined products, as these commodities are highly correlated with the price of fuel that we consume. Option contracts are valued under an income approach using option pricing models based on data either readily observable in public markets, derived from public markets or provided by counterparties who regularly trade in public markets. Volatilities used in these valuations ranged from 12% to 36% depending on the maturity dates, underlying commodities and strike prices of the option contracts. Swap contracts are valued under an income approach using a discounted cash flow model based on data either readily observable or provided by counterparties who regularly trade in public markets. Discount rates used in these valuations vary based on maturity dates utilizing the London interbank offered rate ("LIBOR"). Futures contracts and options on futures contracts are traded on a public exchange and valued based on quoted market prices.

Foreign Currency Exchange Contracts. Our foreign currency derivatives consist of Japanese yen, Canadian dollar and Euro forward contracts and are valued based on data readily observable in public markets.

NOTE 4. INVESTMENTS

Short-Term Investments

The estimated fair values of short-term investments, which approximate cost at March 31, 2018, are shown below by contractual maturity. Actual maturities may differ from contractual maturities because issuers of the securities may have the right to retire our investments without prepayment penalties.

(in millions)	Total
Due in one year or less	$ 120

Due after one year through three years	374
Due after three years through five years	13
Due after five years	16
Total	$ 523

Long-Term Investments

We have developed strategic relationships with a number of airlines through equity investments and other forms of cooperation and support. Strategic relationships improve our coordination with these airlines and enable our customers to seamlessly connect to more places while enjoying a consistent, high-quality travel experience.

Equity Method Investments

- *Aeroméxico*. We have a non-controlling 49% equity stake in Grupo Aeroméxico, the parent company of Aeroméxico.

- *Virgin Atlantic.* We have a non-controlling 49% equity stake in Virgin Atlantic Limited, the parent company of Virgin Atlantic Airways.

We account for these investments under the equity method of accounting and recognize our portion of their financial results in miscellaneous, net in our income statement under non-operating expense.

Fair Value Investments

- *Air France-KLM*. We own 10% of the outstanding shares of our joint venture partner, Air France-KLM. In addition, we are working to develop a combined long-term joint venture with Air France-KLM and Virgin Atlantic.

- *GOL.* Through our investment in preferred shares of GOL's parent company, we own 9% of GOL's outstanding capital stock.

Additionally, GOL has a $300 million five-year term loan facility with third parties, which we have guaranteed. Our entire guaranty is secured by GOL's ownership interest in Smiles, GOL's publicly traded loyalty program. Because GOL remains in compliance with the terms of its loan facility, we have not recorded a liability on our Consolidated Balance Sheet as of March 31, 2018.

- *China Eastern.* We have a 3% equity interest in China Eastern.

We account for these investments at fair value with adjustments to fair value recognized in unrealized gain/(loss) on investments in our income statement under non-operating expense.

NOTE 5. DERIVATIVES AND RISK MANAGEMENT

Changes in fuel prices, interest rates and foreign currency exchange rates impact our results of operations. In an effort to manage our exposure to these risks, we enter into derivative contracts and adjust our derivative portfolio as market conditions change.

Fuel Price Risk

Changes in fuel prices materially impact our results of operations. We have recently managed our fuel price risk through a hedging program intended to reduce the financial impact from changes in the price of fuel as fuel prices are subject to potential volatility. In addition, we enter into derivatives with third parties to hedge financial risk related to Monroe's refining margins.

During the three months ended March 31, 2018 and 2017 we recorded fuel hedge gains of $2 million and $57 million, respectively.

Foreign Currency Exchange Risk

We are subject to foreign currency exchange rate risk because we have revenue and expense denominated in foreign currencies with our primary exposures being the Japanese yen, Canadian dollar and Euro. To manage exchange rate risk, we execute both our international revenue and expense transactions in the same foreign currency to the extent practicable. From time to time, we may also enter into foreign currency option and forward contracts. Our Japanese yen and Canadian dollar foreign currency exchange contracts are designated as cash flow hedges.

In January 2018, we entered into a three-year U.S. dollar-Euro cross currency swap with a notional value of 375 million Euro. This swap is intended to mitigate foreign currency volatility resulting from our Euro-denominated investment in Air France-KLM. During the three months ended March 31, 2018, we recorded losses of $16 million, which are reflected in unrealized gain/loss on investments in the income statement.

Hedge Position as of March 31, 2018

(in millions)	Volume		Final Maturity Date	Prepaid Expenses and Other	Other Noncurrent Assets	Other Accrued Liabilities	Other Noncurrent Liabilities	Hedge Derivatives, net
Designated as hedges								
Foreign currency exchange contracts	18,701 166	Japanese yen Canadian dollars	November 2019 May 2020	$ 1	$ 1	$ (14)	$ (4)	$ (16)
Not designated as hedges								
Foreign currency exchange contract	375	Euros	December 2020	7	—	—	(23)	(16)
Fuel hedge contracts	267	gallons - crude oil and refined products	December 2019	1,001	53	(1,006)	(51)	(3)
Total derivative contracts				$ 1,009	$ 54	$ (1,020)	$ (78)	$ (35)

Hedge Position as of December 31, 2017

(in millions)	Volume		Final Maturity Date	Prepaid Expenses and Other	Other Noncurrent Assets	Other Accrued Liabilities	Other Noncurrent Liabilities	Hedge Derivatives, net
Designated as hedges								
Foreign currency exchange contracts	23,512 490	Japanese yen Canadian dollars	November 2019 May 2020	$ 1	$ 1	$ (13)	$ (6)	$ (17)
Not designated as hedges								

Fuel hedge contracts	249	gallons - crude oil and refined products	May 2019	638	8	(694)	(18)	(66)
Total derivative contracts				$ 639	$ 9	$ (707)	$ (24)	$ (83)

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Offsetting Assets and Liabilities

We have master netting arrangements with our counterparties giving us the right to offset hedge assets and liabilities. However, we have elected not to offset the fair value positions recorded on our Consolidated Balance Sheets. The following table shows the net fair value positions by counterparty had we elected to offset.

(in millions)	Prepaid Expenses and Other	Other Noncurrent Assets	Other Accrued Liabilities	Other Noncurrent Liabilities	Hedge Derivatives, net
March 31, 2018					
Net derivative contracts	$ 21	$ 1	$ (31)	$ (26)	$ (35)
December 31, 2017					
Net derivative contracts	$ —	$ 1	$ (68)	$ (16)	$ (83)

Designated Hedge Gains (Losses)

Gains (losses) related to our foreign currency exchange contracts are as follows:

	Effective Portion Reclassified from AOCI to Earnings		Effective Portion Recognized in Other Comprehensive Income	
(in millions)	2018	2017	2018	2017
Three Months Ended March 31,				
Foreign currency exchange contracts	$ (4)	$ 7	$ 1	$ (25)

Credit Risk

To manage credit risk associated with our fuel price, interest rate and foreign currency hedging programs, we evaluate counterparties based on several criteria including their credit ratings and limit our exposure to any one counterparty.

NOTE 6. LONG-TERM DEBT

Fair Value of Debt

Market risk associated with our fixed- and variable-rate long-term debt relates to the potential reduction in fair value and negative impact to future earnings, respectively, from an increase in interest rates. The fair value of debt, shown below, is principally based on reported market values, recently completed market transactions and estimates based on interest rates, maturities, credit risk and underlying collateral. Long-term debt is primarily classified as Level 2 within the fair value hierarchy.

(in millions)	March 31, 2018	December 31, 2017
Total debt at par value	$8,326	$ 8,539
Unamortized discount and debt issue cost, net	(92)	(99)
Net carrying amount	$8,234	$ 8,440
Fair value	$8,400	$ 8,700

Covenants

We were in compliance with the covenants in our financings at March 31, 2018.

NOTE 7. EMPLOYEE BENEFIT PLANS

The following table shows the components of net (benefit) cost:

	Pension Benefits		Other Postretirement and Postemployment Benefits	
(in millions)	**2018**	**2017**	**2018**	**2017**
Three Months Ended March 31,				
Service cost	$—	$—	$ 21	$ 22
Interest cost	195	213	32	35
Expected return on plan assets	(329)	(286)	(17)	(17)
Amortization of prior service credit	—	—	(7)	(7)
Recognized net actuarial loss	66	66	10	8
Net (benefit) cost	$(68)	$(7)	$ 39	$ 41

Service cost is recorded in salaries and related costs in the income statement while all other components are recorded within miscellaneous, net under non-operating expense.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Aircraft Purchase and Lease Commitments

Our future aircraft purchase commitments totaled approximately $17.2 billion at March 31, 2018:

(in millions)	**Total**
Nine months ending December 31, 2018	$2,480
2019	3,360
2020	3,270
2021	3,880
2022	2,450
Thereafter	1,740
Total	$17,180

Our future aircraft purchase commitments included the following aircraft at March 31, 2018:

Aircraft Type	**Purchase Commitments**
A321-200	85
A321-200neo	100
A330-900neo	25
A350-900	17
B-737-900ER	36
CS100	75
Total	338

Legal Contingencies

We are involved in various legal proceedings related to employment practices, environmental issues, antitrust matters and other matters concerning our business. We record liabilities for losses from legal proceedings when we determine that it is probable that the outcome in a legal proceeding will be unfavorable and the amount of loss can be reasonably estimated. Although the outcome of the legal proceedings in which we are involved cannot be predicted with certainty, we believe that the resolution of these matters will not have a material adverse effect on our Condensed Consolidated Financial Statements.

Other Contingencies

General Indemnifications

We are the lessee under many commercial real estate leases. It is common in these transactions for us, as the lessee, to agree to indemnify the lessor and the lessor's related parties for tort, environmental and other liabilities that arise out of or relate to our use or occupancy of the leased premises. This type of indemnity would typically make us responsible to indemnified parties for liabilities arising out of the conduct of, among others, contractors, licensees and invitees at, or in connection with, the use or occupancy of the leased premises. This indemnity often extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by either their sole or gross negligence or their willful misconduct.

Our aircraft and other equipment lease and financing agreements typically contain provisions requiring us, as the lessee or obligor, to indemnify the other parties to those agreements, including certain of those parties' related persons, against virtually any liabilities that might arise from the use or operation of the aircraft or other equipment.

We believe that our insurance would cover most of our exposure to liabilities and related indemnities associated with the commercial real estate leases and aircraft and other equipment lease and financing agreements described above. While our insurance does not typically cover environmental liabilities, we have certain insurance policies in place as required by applicable environmental laws.

Certain of our aircraft and other financing transactions include provisions that require us to make payments to preserve an expected economic return to the lenders if that economic return is diminished due to certain changes in law or regulations. In certain of these financing transactions, we also bear the risk of certain changes in tax laws that would subject payments to non-U.S. lenders to withholding taxes.

We cannot reasonably estimate our potential future payments under the indemnities and related provisions described above because we cannot predict (1) when and under what circumstances these provisions may be triggered and (2) the amount that would be payable if the provisions were triggered because the amounts would be based on facts and circumstances existing at such time.

Other

We have certain contracts for goods and services that require us to pay a penalty, acquire inventory specific to us or purchase contract-specific equipment, as defined by each respective contract, if we terminate the contract without cause prior to its expiration date. Because these obligations are contingent on our termination of the contract without cause prior to its expiration date, no obligation would exist unless such a termination occurs.

NOTE 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables show the components of accumulated other comprehensive loss:

(in millions)	Pension and Other Benefits Liabilities[3]	Derivative Contracts and Other	Available-for-Sale Investments	Total
Balance at January 1, 2018 (net of tax effect of $1,400)	$(7,812)	$ 85	$ 106	$(7,621)
Changes in value (net of tax effect of $2)	—	(7)	—	(7)
Reclassifications into retained earnings (net of tax effect of $61)[1]	—	—	(106)	(106)
Reclassifications into earnings (net of tax effect of $15)[2]	51	2	—	53
Balance at March 31, 2018 (net of tax effect of $1,448)	$(7,761)	$ 80	$ —	$(7,681)

Balance at January 1, 2017 (net of tax effect of $1,458)	$(7,714)	$114	$(36)	$(7,636)
Changes in value (net of tax effect of $5)	—	(12)	48	36
Reclassifications into earnings (net of tax effect of $17)[2]	41	(4)	(8)	29
Balance at March 31, 2017 (net of tax effect of $1,446)	$(7,673)	$98	$4	$(7,571)

(1) The reclassification into retained earnings relates to our investments in GOL, China Eastern and other available-for-sale investments, and the related conversion to accounting for changes in fair value of these investments from AOCI to the income statement. See Note 1, "Summary of Significant Accounting Policies," for more information.

(2) Amounts reclassified from AOCI for pension and other benefits liabilities and for derivative contracts designated as foreign currency cash flow hedges are recorded in miscellaneous, net and in passenger revenue, respectively, in the income statement. The reclassification into earnings for investments relates to our investment in Grupo Aeroméxico and the related conversion to accounting under the equity method. The reclassification of the unrealized gain was recorded to non-operating expense in our income statement.

(3) Includes $700 million of deferred income tax expense primarily related to pension and other benefit obligations that will not be recognized in net income until these obligations are fully extinguished. We consider all income sources, including other comprehensive income, in determining the amount of tax benefit allocated to continuing operations.

NOTE 10. SEGMENTS

Refinery Operations

Our refinery segment operates for the benefit of the airline segment by providing jet fuel to the airline segment from its own production and through jet fuel obtained through agreements with third parties. The refinery's production consists of jet fuel, as well as non-jet fuel products. We use several counterparties to exchange the non-jet fuel products produced by the refinery for jet fuel consumed in our airline operations. The gross fair value of the products exchanged under these agreements during the three months ended March 31, 2018 and 2017 was $876 million and $733 million, respectively.

Segment Reporting

Segment results are prepared based on our internal accounting methods described below, with reconciliations to consolidated amounts in accordance with GAAP. Our segments are not designed to measure operating income or loss directly related to the products and services included in each segment on a stand-alone basis.

(in millions)	Airline	Refinery	Intersegment Sales/Other	Consolidated
Three Months Ended March 31, 2018				
Operating revenue:	$9,755	$1,491		$ 9,968
Sales to airline segment			$ (262) [1]	
Exchanged products			(876) [2]	
Sales of refined products			(140) [3]	
Operating income	796	44	—	840
Interest expense (income), net	107	(5)	—	102
Depreciation and amortization	595	15	—	610
Total assets, end of period	52,116	1,962	—	54,078
Capital expenditures	1,250	15	—	1,265
Three Months Ended March 31, 2017				
Operating revenue:	$9,040	$1,128		$ 9,101
Sales to airline segment			$ (190) [1]	
Exchanged products			(733) [2]	
Sales of refined products			(144) [3]	
Operating income	955	44	—	999
Interest expense, net	94	—	—	94
Depreciation and amortization	527	10	—	537
Total assets, end of period	50,753	1,320	—	52,073
Capital expenditures	776	26	—	802

(1) Represents transfers, valued on a market price basis, from the refinery to the airline segment for use in airline operations. We determine market price by reference to the market index for the primary delivery location, which is New York Harbor, for jet fuel from the refinery.

(2) Represents value of products delivered under our exchange agreements, as discussed above, determined on a market price basis.

(3) These sales were at or near cost; accordingly, the margin on these sales is de minimis.

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NOTE 11. RESTRUCTURING

The following table shows the balances and activity for restructuring charges:

(in millions)	Lease Restructuring
Liability as of January 1, 2018	$ 237
Payments	(19)
Additional expenses and other	—
Liability as of March 31, 2018	$ 218

Restructuring charges primarily include remaining lease payments for permanently grounded aircraft related to domestic and Pacific fleet restructurings. The domestic fleet restructuring involves replacing a portion of our 50-seat regional fleet with more efficient and customer preferred aircraft and replacing older, less cost effective B-757-200 aircraft with B-737-900ER aircraft. The Pacific fleet restructuring resulted in the 2017 retirement of the B-747-400 fleet, which is being replaced with smaller-gauge, widebody aircraft to better match capacity with demand.

NOTE 12. EARNINGS PER SHARE

We calculate basic earnings per share by dividing net income by the weighted average number of common shares outstanding, excluding restricted shares. We calculate diluted earnings per share by dividing net income by the weighted average number of common shares outstanding plus the dilutive effect of outstanding share-based awards, including stock options and restricted stock awards. Antidilutive common stock equivalents excluded from the diluted earnings per share calculation are not material. The following table shows the computation of basic and diluted earnings per share:

	Three Months Ended March 31,	
(in millions, except per share data)	2018	2017
Net income	$547	$561
Basic weighted average shares outstanding	704	728
Dilutive effect of share-based awards	2	3
Diluted weighted average shares outstanding	706	731
Basic earnings per share	$0.78	$0.77
Diluted earnings per share	$0.77	$0.77

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

March 2018 Quarter Financial Highlights

Our pre-tax income for the March 2018 quarter was $718 million, representing a $131 million decrease compared to the corresponding prior year quarter primarily resulting from higher salaries and related costs, and fuel expense, partially offset by increased passenger revenue. Pre-tax income, adjusted for special items (a non-GAAP financial measure) was $676 million, a decrease of $104 million compared to the corresponding prior year period.

Revenue. Compared to the March 2017 quarter, our operating revenue increased $867 million, or 9.5%, on 2.7% higher capacity combined with robust demand and strong revenue momentum, continuing the growth trend from the last three quarters of 2017. Total revenue per available seat mile ("TRASM") increased 6.6% and TRASM, adjusted (a non-GAAP financial measure) increased 5.0% compared to the March 2017 quarter, led by (1) unit revenue growth in all geographic regions for the second consecutive quarter, (2) broad-based strength in both leisure and business demand, (3) foreign currency improvements, particularly in the Atlantic region, and (4) expansion of Branded Fares. Other revenue increased 31.7% primarily from growth in our co-brand credit card partnership with American Express and sales of non-jet fuel products to third parties by our refinery, resulting from higher sales volume.

Operating Expense. Total operating expense increased $1.0 billion, or 12.7%, and our consolidated operating cost per available seat mile ("CASM") increased 9.6% to 15.35 cents compared to the March 2017 quarter, primarily due to higher salaries and related costs, fuel expense and ancillary businesses and refinery. Salaries and related costs were higher due to pay rate increases for eligible merit, ground and flight attendant employees implemented in the June 2017 quarter. The increase in fuel expense primarily resulted from an approximately 23% increase in the market price per gallon of fuel and an increase in consumption consistent with our capacity growth in the quarter. The increase in ancillary businesses and refinery primarily resulted from $152 million of additional refinery sales to third parties.

Non-fuel unit costs ("CASM-Ex" a non-GAAP financial measure) increased 3.9% to 11.10 cents compared to the March 2017 quarter primarily due to the pay rate increases discussed above.

The non-GAAP financial measures for pre-tax income, adjusted for special items, and CASM-Ex, both used above, are defined and reconciled in "Supplemental Information" below. TRASM, adjusted is reconciled in "Operating Revenue" below.

Results of Operations - Three Months Ended March 31, 2018 and 2017

Operating Revenue

(in millions)	Three Months Ended March 31, 2018	2017	Increase (Decrease)	% Increase (Decrease)
Passenger	$8,765	$8,178	$587	7.2 %
Cargo	202	163	39	23.4 %
Other	1,001	760	241	31.7 %
Total operating revenue	$9,968	$9,101	$867	9.5 %
TRASM (cents)	$16.77	$15.73	$1.04	6.6 %
Third-party refinery sales	(0.36)	(0.11)	$(0.25)	NM
TRASM, adjusted (cents)	$16.41	$15.62	$0.79	5.0 %

Passenger Revenue

Passenger revenue is composed of passenger ticket sales, loyalty travel awards and travel-related services performed in conjunction with a passenger's flight.

(in millions)	Three Months Ended March 31, 2018	2017	Increase (Decrease)	% Increase (Decrease)
Ticket	$7,653	$7,105	$548	7.7 %
Loyalty travel awards	618	582	36	6.2 %
Travel-related services	494	491	3	0.6 %
Total passenger revenue	$8,765	$8,178	$587	7.2 %

Ticket and Loyalty Travel Awards

Ticket and loyalty travel awards revenue increased $548 million and $36 million, respectively, compared to the March 2017 quarter, consistent with the geographic region discussion below.

Passenger Revenue by Geographic Region

		Increase (Decrease) vs. Three Months Ended March 31, 2017									
(in millions)	Three Months Ended March 31, 2018	Passenger Revenue		RPMs (Traffic)		ASMs (Capacity)		Passenger Mile Yield		PRASM	Load Factor
Domestic	$6,301	6.9	%	3.6	%	4.2	%	3.2	%	2.6 %	(0.5) pts
Atlantic	1,059	14.7	%	5.7	%	2.9	%	8.6	%	11.5 %	2.0 pts
Latin America	827	4.3	%	(1.5)	%	(1.4)	%	5.9	%	5.7 %	(0.1) pts
Pacific	578	1.7	%	(1.6)	%	(2.0)	%	3.4	%	3.9 %	0.4 pts
Total	$8,765	7.2	%	2.8	%	2.7	%	4.3	%	4.3 %	— pts

Passenger revenue increased $587 million, or 7.2%, compared to the March 2017 quarter. Passenger revenue per available seat mile ("PRASM") increased 4.3% and passenger mile yield increased 4.3% on 2.7% higher capacity. Load factor was the same as the prior year quarter at 82.9%.

Unit revenues of the domestic region increased 2.6%, resulting from our commercial initiatives, including differentiated products for our customers, known as Branded Fares, and an improving revenue environment. Our domestic operations have generated four consecutive quarters of year-over-year unit revenue growth, with robust

demand for both leisure and business travel and business yield growth for the first time in several years.

Passenger revenues related to our international regions increased 7.9% year-over-year with strength in all three regions, despite reduced capacity in the Pacific and Latin America. During the quarter, we continued to expand our Branded Fares product throughout the international regions.

In the Atlantic, unit revenues increased 11.5% due to strengthening yields from business cabin traffic, currency improvements and load factor growth. Yield growth was particularly strong as we continue to leverage our alliance partners' hub positions in Europe's leading business markets of London, Amsterdam and Paris.

Unit revenues increased in Latin America principally as a result of unit revenue improvement in the Caribbean and Central America. Despite lingering hurricane damage in several markets, the Caribbean region's unit revenue growth was driven by yield and load factor. However, the Mexico market was challenged by increased industry capacity to business destinations and travel advisories, which pressured demand to beach destinations.

Unit revenues increased in the Pacific region due to yield strength as we refine the network to generate incremental value from our Korean alliance and differentiate our product offerings, including the expansion of Branded Fares. During the March 2018 quarter, we co-located with Korean Air into the new Terminal 2 at Seoul-Incheon, substantially reducing connecting times for customers, and received approval from Korean regulators for the launch of our joint venture. We also expanded service on our flagship A350-900 with Delta One suites and the Delta Premium Select cabin on routes from Detroit to Beijing and Atlanta to Seoul-Incheon.

Other Revenue

(in millions)	Three Months Ended March 31, 2018	2017	Increase (Decrease)	% Increase (Decrease)
Ancillary businesses and refinery	$521	$312	$ 209	67.0 %
Loyalty program	347	305	42	13.8 %
Miscellaneous	133	143	(10)	(7.0)%
Total other revenue	$1,001	$760	$ 241	31.7 %

Ancillary businesses and refinery. Ancillary businesses and refinery includes aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations, our private jet operations and refinery sales to third parties. Refinery sales to third parties, which are at or near cost, increased $152 million compared to the March 2017 quarter.

Loyalty program. These revenues relate to brand usage and other performance obligations embedded in mileage credits sold, including non-travel mileage credits redeemed.

Operating Expense

(in millions)	Three Months Ended March 31, 2018	2017	Increase (Decrease)	% Increase (Decrease)
Salaries and related costs	$2,584	$2,386	$198	8.3 %
Aircraft fuel and related taxes	1,856	1,482	374	25.2 %
Regional carriers expense, excluding fuel	856	864	(8)	(0.9)%
Depreciation and amortization	610	537	73	13.6 %
Contracted services	544	505	39	7.7 %
Ancillary businesses and refinery	493	292	201	68.8 %
Aircraft maintenance materials and outside repairs	435	432	3	0.7 %
Passenger commissions and other selling expenses	427	404	23	5.7 %
Landing fees and other rents	373	361	12	3.3 %
Passenger service	263	234	29	12.4 %
Profit sharing	183	151	32	21.2 %
Aircraft rent	94	84	10	11.9 %
Other	410	370	40	10.8 %
Total operating expense	$9,128	$8,102	$1,026	12.7 %

Salaries and Related Costs. The increase in salaries and related costs is primarily due to increases for eligible merit, ground and flight attendant employees implemented in the June 2017 quarter.

Aircraft Fuel and Related Taxes. Fuel expense increased $374 million compared to the prior year quarter from an approximately 23% increase in the market price per gallon of fuel and an increase in consumption consistent with our capacity growth.

The table below shows the impact of hedging and the refinery on fuel expense and average price per gallon, adjusted (non-GAAP financial measures):

(in millions, except per gallon data)	Three Months Ended March 31, 2018	2017	Change	Average Price Per Gallon Three Months Ended March 31, 2018	2017	Change
Fuel purchase cost[1]	$1,927	$1,531	$396	$2.06	$1.68	$0.38
Airline segment fuel hedge impact	(27)	(5)	(22)	(0.03)	(0.01)	(0.02)
Refinery segment impact	(44)	(44)	—	(0.05)	(0.05)	—
Total fuel expense	$1,856	$1,482	$374	$1.98	$1.62	$0.36
MTM adjustments and settlements[2]	27	84	(57)	0.03	0.09	(0.06)
Total fuel expense, adjusted	$1,883	$1,566	$317	$2.01	$1.71	$0.30

(1) Market price for jet fuel at airport locations, including related taxes and transportation costs.

(2) Mark-to-market ("MTM") adjustments and settlements include the effects of the derivative transactions discussed in Note 5 of the Notes to the Condensed Consolidated Financial Statements. For additional information and the reason for adjusting fuel expense for MTM adjustments and settlements, see "Supplemental Information" below.

Depreciation and Amortization. The increase in depreciation and amortization primarily results from new aircraft deliveries over the prior year, including B-737-900ER, A321-200, A330-300 and A350-900 aircraft, and fleet modifications. In addition, as part of our fleet evolution, the current period includes accelerated depreciation due to the planned retirement of our MD-88 fleet and two B-767-300ER aircraft. As we take delivery of the aircraft discussed above, we continue to evaluate our current fleet compared to network requirements.

Ancillary Businesses and Refinery. Ancillary businesses and refinery includes expenses associated with aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations, our private jet operations and refinery sales to third parties. Refinery sales to third parties, which are at or near cost, increased $152

million compared to the March 2017 quarter.

Passenger Service. Passenger service expense includes the costs of onboard food and beverage, cleaning and supplies. The increase in passenger service expense predominantly relates to costs associated with enhancements to our onboard product offering.

Non-Operating Results

(in millions)	Three Months Ended March 31, 2018	2017	Favorable (Unfavorable)
Interest expense, net	$(102)	$(94)	$ (8)
Unrealized gain/(loss) on investments, net	18	—	18
Miscellaneous, net	(38)	(56)	18
Total non-operating expense, net	$(122)	$(150)	$ 28

Following the issuance of $2.5 billion of unsecured notes during 2017, the principal amount of debt and capital leases at December 31, 2017 was $8.9 billion. The principal amount of debt and capital leases decreased to $8.7 billion at March 31, 2018.

Unrealized gain/(loss) on investments, net reflects the unrealized gains and losses on our equity investments in GOL, China Eastern and Air France-KLM. In 2017, before we adopted the new financial instruments standard, we recorded unrealized gains/(losses) on available-for-sale investments in AOCI.

Miscellaneous, net is primarily composed of our proportionate share of earnings from our equity investments in Virgin Atlantic and Grupo Aeroméxico, foreign exchange gains/losses, pension-related costs and charitable contributions. Our equity investment earnings and foreign exchange gains/losses vary and impact the comparability of miscellaneous, net from period to period.

Income Taxes

We project that our annual effective tax rate for 2018 will be approximately 23%. In certain interim periods, we may have adjustments to our net deferred tax assets as a result of changes in prior year estimates and tax laws enacted during the period, which will impact the effective tax rate for that interim period.

Refinery Segment

The refinery primarily produces gasoline, diesel and jet fuel. Monroe exchanges the non-jet fuel products the refinery produces with third parties for jet fuel consumed in our airline operations. The jet fuel produced and procured through exchanging gasoline and diesel fuel produced by the refinery provides approximately 190,000 barrels per day for use in our airline operations. We believe that the jet fuel supply resulting from the refinery's operation contributes to reducing the market price of jet fuel, and thus lowered our cost of jet fuel compared to what it otherwise would have been.

The refinery recorded operating revenues of $1.5 billion in the three months ended March 31, 2018, compared to $1.1 billion in the three months ended March 31, 2017. Operating revenues in the three months ended March 31, 2018 were primarily composed of $876 million of non-jet fuel products exchanged with third parties to procure jet fuel and $262 million of sales of jet fuel to the airline segment. Refinery revenues increased compared to the prior year quarter due to stronger pricing of refined products throughout the oil industry and higher refinery run rates.

The refinery recorded income of $44 million in each of the three months ended March 31, 2018 and 2017. The refinery's income in the current period was primarily due to lower costs for renewable energy credits and higher refined product cracks.

A refinery is subject to annual U.S. Environmental Protection Agency requirements to blend renewable fuels into the gasoline and on-road diesel fuel it produces. Alternatively, a refinery may purchase renewable energy credits, called Renewable Identification Numbers ("RINs"), from third parties in the secondary market. The refinery purchases the majority of its RINs requirement in the secondary market. We recognized a $19 million gain in the March 2018 quarter resulting from an approximately 25% decline in the observable RINs prices. In the March 2017 quarter we recognized $7 million of expense related to the RINs requirement.

For more information regarding the refinery's results, see Note 10 of the Notes to the Condensed Consolidated Financial Statements.

Operating Statistics

Consolidated[1]	Three Months Ended March 31, 2018	2017	% Increase (Decrease)
Revenue passenger miles (in millions)	49,276	47,952	2.8 %
Available seat miles (in millions)	59,453	57,871	2.7 %
Passenger mile yield	17.79¢	17.05¢	4.3 %
PRASM	14.74¢	14.13¢	4.3 %
TRASM	16.77¢	15.73¢	6.6 %
TRASM, adjusted[2]	16.41¢	15.62¢	5.0 %
CASM	15.35¢	14.00¢	9.6 %
CASM-Ex[2]	11.10¢	10.67¢	3.9 %
Passenger load factor	82.9 %	82.9 %	— %
Fuel gallons consumed (in millions)	936	918	2.0 %
Average price per fuel gallon[3]	$1.98	$1.62	22.2 %
Average price per fuel gallon, adjusted[3][4]	$2.01	$1.71	18.0 %

(1) Includes the operations of our regional carriers under capacity purchase agreements.
(2) Non-GAAP financial measure defined and reconciled to TRASM and CASM, respectively, in "Supplemental Information" below.
(3) Includes the impact of fuel hedge activity and refinery segment results.
(4) Non-GAAP financial measure defined and reconciled to average fuel price per gallon in "Results of Operations" for the three months ended March 31, 2018 and 2017.

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Fleet Information

Our operating aircraft fleet and commitments at March 31, 2018 are summarized in the following table:

	Current Fleet[1]					Commitments	
Aircraft Type	Owned	Capital Lease	Operating Lease	Total	Average Age	Purchase	Options
B-717-200	3	13	75	91	16.6	—	—
B-737-700	10	—	—	10	9.2	—	—
B-737-800	73	4	—	77	16.5	—	—
B-737-900ER	57	—	37	94	2.4	36	—
B-757-200	88	9	3	100	20.6	—	—
B-757-300	16	—	—	16	15.1	—	—
B-767-300	2	—	—	2	24.8	—	—
B-767-300ER	54	2	—	56	21.8	—	—
B-767-400ER	21	—	—	21	17.3	—	—
B-777-200ER	8	—	—	8	18.3	—	—
B-777-200LR	10	—	—	10	9.0	—	—
A319-100	55	—	2	57	16.1	—	—
A320-200	55	3	4	62	22.6	—	—
A321-200	15	—	27	42	0.9	85	—
A321-200neo	—	—	—	—	—	100	100
A330-200	11	—	—	11	13.0	—	—
A330-300	28	—	3	31	9.2	—	—
A330-900neo	—	—	—	—	—	25	—
A350-900	8	—	—	8	0.4	17	—
CS100	—	—	—	—	—	75	50
MD-88	92	14	—	106	27.7	—	—
MD-90	65	—	—	65	21.1	—	—
Total	671	45	151	867	16.6	338	150

[1] Excludes certain aircraft we own or lease that are operated by regional carriers on our behalf shown in the table below.

The following table summarizes the aircraft fleet operated by regional carriers on our behalf at March 31, 2018:

	Fleet Type					
Carrier	CRJ-200	CRJ-700	CRJ-900	Embraer 170	Embraer 175	Total
Endeavor Air, Inc.[1]	45	2	103	—	—	150
ExpressJet Airlines, Inc.[2]	—	31	6	—	—	37
SkyWest Airlines, Inc.	83	27	35	—	19	164
Compass Airlines, Inc.	—	—	—	—	36	36
Republic Airline, Inc.	—	—	—	20	16	36
GoJet Airlines, LLC	—	22	7	—	—	29
Total	128	82	151	20	71	452

[1] Endeavor Air, Inc. is a wholly owned subsidiary of Delta.
[2] During 2017, we and ExpressJet Airlines, Inc. agreed to terminate our relationship by the end of 2018.

Financial Condition and Liquidity

We expect to meet our cash needs for the next 12 months with cash flows from operations, cash and cash equivalents, short-term investments and financing arrangements. As of March 31, 2018, we had $4.4 billion in unrestricted liquidity, consisting of $2.0 billion in cash and cash equivalents and short-term investments and $2.4 billion in undrawn revolving credit facilities. During the three months ended March 31, 2018, we used existing cash and cash generated from operating activities to fund capital expenditures of $1.3 billion and return $542 million to shareholders.

Sources of Liquidity
Operating Activities

Cash flows from operating activities continue to provide our primary source of liquidity. We generated positive cash flows from operations of $1.3 billion in the three months ended March 31, 2018 compared to negative operating cash flows of $830 million for the corresponding prior year period. We had negative operating cash flows during the March 2017 quarter primarily due to incremental pension plan contributions partially funded through $2.0 billion of debt issuance. We expect to continue generating positive cash flows from operations during the remainder of 2018.

Our operating cash flows are impacted by the following factors:

Seasonality of Advance Ticket Sales. We sell tickets for air travel in advance of the customer's travel date. When we receive a cash payment at the time of sale, we record the cash received on advance sales as deferred revenue in air traffic liability. The air traffic liability increases during the winter and spring as advanced ticket sales grow prior to the summer peak travel season and decreases during the summer and fall months.

Fuel. Fuel expense represented approximately 20% of our total operating expenses for the three months ended March 31, 2018. The market price for jet fuel is volatile, which can impact the comparability of our periodic cash flows from operations.

Pension Contributions. We have no minimum funding requirements in 2018. However, we voluntarily contributed $500 million to our qualified defined benefit pension plans during the first three months of 2018. During the three months ended March 31, 2017, we contributed cash of $2.6 billion and shares of our common stock from treasury with a value of $350 million to our qualified defined benefit pension plans.

Profit Sharing. Our broad-based employee profit sharing program provides that for each year in which we have an annual pre-tax profit, as defined by the terms of the program, we will pay a specified portion of that profit to employees. In determining the amount of profit sharing, the program defines profit as pre-tax profit adjusted for profit sharing and certain other items.

Effective October 1, 2017, we aligned our profit sharing plans under a single formula. Under this formula, our profit sharing program pays 10% to all eligible employees for the first $2.5 billion of annual profit and 20% of annual profit above $2.5 billion. Prior to that time, the profit sharing program for pilots used this formula but for the first nine months of 2017, the profit sharing program for merit, ground and flight attendant employees paid 10% of annual profit (as defined by the terms of the program) and, if we exceeded our prior-year results, the program paid 20% of the year-over-year increase in profit to eligible employees. Going forward, all eligible employees will be paid profit sharing under the current formula. During the three months ended March 31, 2018, we accrued $183 million in profit sharing expense based on the year-to-date performance and current expectations for 2018 profit.

We paid $1.1 billion in profit sharing in February 2018 related to our 2017 pre-tax profit in recognition of our employees' contributions toward meeting our financial goals.

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Investing Activities

Capital Expenditures. Our capital expenditures were $1.3 billion and $802 million for the three months ended March 31, 2018 and 2017, respectively. Our capital expenditures during the three months ended March 31, 2018 were primarily related to the purchases of B-737-900ER, A321-200 and A350-900 aircraft, advanced deposit payments on future aircraft order commitments and seat density projects for our domestic fleet.

We have committed to future aircraft purchases that will require significant capital investment and have obtained, but are under no obligation to use, long-term financing commitments for a substantial portion of the purchase price of a significant number of these aircraft. Our expected 2018 investments of $4.5 billion will be primarily for (1) aircraft, including deliveries of B-737-900ERs, A321-200s, A350-900s and CS100s, along with advance deposit payments for these and A321-200neos and A330-900neos, as well as (2) aircraft modifications, the majority of which relate to increasing the seat density and enhancing the cabins on our domestic fleet.

Los Angeles International Airport Construction. During 2016, we executed a modified lease agreement with Los Angeles World Airports ("LAWA"), which owns and operates LAX, and announced plans to modernize, upgrade and connect Terminals 2 and 3 at LAX over the next seven years. Based on the lease agreement, we are designing and managing the construction of the initial investment of $350 million to renovate gate areas, support space and other amenities for passengers, upgrade the baggage handling systems in the terminals and facilitate the relocation of those airlines located in Terminals 2 and 3 to Terminals 5 and 6 and Tom Bradley International Terminal ("TBIT"). The relocation was completed during the June 2017 quarter. Subject to required approvals, we have an option to expand the project, which could cost an additional $1.5 billion and would include (1) redevelopment of Terminal 3 and enhancement of Terminal 2, (2) rebuild of the ticketing, arrival hall and security checkpoint, (3) construction of infrastructure for the planned airport people mover, (4) ramp improvements and (5) construction of a secure connector to the north side of TBIT.

A substantial majority of the project costs will be funded through the Regional Airports Improvement Corporation ("RAIC"), a California public benefit corporation, using an $800 million revolving credit facility provided by a group of lenders. The credit facility was executed during 2017. Loans made under the credit facility will be repaid with the proceeds from LAWA’s purchase of completed project assets. We have guaranteed the obligations of the RAIC under the credit facility. Using funding provided by the credit agreement and/or cash flows from operations, we expect to spend approximately $200 million on this project during 2018, of which $61 million was incurred in the March 2018 quarter.

New York-LaGuardia Redevelopment. As part of the terminal redevelopment project at LaGuardia Airport, we are partnering with the Port Authority of New York and New Jersey (the “Port Authority”) to replace Terminals C and D with a new state-of-the-art terminal facility consisting of 37 gates across four concourses connected to a central headhouse. The terminal will feature a new, larger Delta Sky Club, wider concourses, more gate seating and 30 percent more concessions space than the existing terminals. The facility will also offer direct access between the parking garage and terminal and improved roadways and drop-off/pick-up areas. The design of the new terminal will integrate sustainable technologies and improvements in energy efficiency. Construction will be phased to limit passenger inconvenience and is expected to be completed by 2026.

In connection with the redevelopment, during 2017, we entered into an amended and restated terminal lease with the Port Authority with a term through 2050. Pursuant to the lease agreement we will (1) fund (through debt issuance and existing cash) and undertake the design, management and construction of the terminal and certain off-premises supporting facilities, (2) receive a Port Authority contribution of $600 million to facilitate construction of the terminal and other supporting infrastructure, (3) be responsible for all operations and maintenance during the term of the lease and (4) have preferential rights to all gates in the terminal subject to Port Authority requirements with respect to accommodation of designated carriers. We currently expect our costs for the project to be approximately $3.3 billion

and we bear the risks of project construction, including if the project's actual costs exceed the projected costs. Using funding provided by cash flows from operations and/or financing arrangements, we expect to spend approximately $550 million on this project during 2018, of which $44 million was incurred in the March 2018 quarter.

Financing Activities

Debt and Capital Leases. The principal amount of debt and capital leases was $8.7 billion at March 31, 2018. Since December 31, 2009, we have reduced our principal amount of debt and capital leases by $9.6 billion.

Capital Return to Shareholders. During the three months ended March 31, 2018, we repurchased and retired 5.8 million shares of our common stock at a cost of $325 million.

In the March 2018 quarter, the Board of Directors approved and we paid a quarterly dividend of $0.305 per share.

Undrawn Lines of Credit

We have $2.4 billion available in undrawn revolving lines of credit. These credit facilities have covenants, including minimum collateral coverage ratios. If we are not in compliance with these covenants, we may be required to repay amounts borrowed under the credit facilities or we may not be able to draw on them. We currently have a substantial amount of unencumbered assets available to pledge as collateral.

Covenants

We were in compliance with the covenants in our financings at March 31, 2018.

Critical Accounting Policies and Estimates

Except as set forth below, for information regarding our Critical Accounting Policies and Estimates, see the "Critical Accounting Policies and Estimates" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-K.

Frequent Flyer Program

Our frequent flyer program (the "SkyMiles program") generates customer loyalty by rewarding customers with incentives to travel on Delta. This program allows customers to earn mileage credits by flying on Delta, Delta Connection and airlines that participate in the SkyMiles program. When traveling, customers earn redeemable mileage credits based on the passenger's loyalty program status and travel fare paid. Customers can also earn mileage credits through participating companies such as credit card companies, hotels and car rental agencies. To facilitate transactions with participating companies, we sell mileage credits to non-airline businesses, customers and other airlines. Mileage credits are redeemable by customers in future periods for air travel on Delta and participating airlines, membership in our Sky Club and other program awards.

To reflect the mileage credits earned, the SkyMiles program includes two types of transactions that are considered revenue arrangements with multiple performance obligations: (1) mileage credit earned with travel and (2) mileage credit sold to participating companies.

Passenger ticket sales earning mileage credits. Passenger ticket sales earning mileage credits under our SkyMiles program provide customers with (1) mileage credits earned and (2) air transportation. We value each performance obligation on a standalone basis. To value the mileage credits earned, we consider the quantitative value a passenger receives by redeeming miles for a ticket rather than paying cash, which is referred to as equivalent ticket value ("ETV").

We defer revenue for the mileage credits when earned and recognize loyalty travel awards in passenger revenue as the miles are redeemed and services are provided. We record the air transportation portion of the passenger ticket sales in air traffic liability and recognize passenger revenue when we provide transportation or if the ticket goes unused. A hypothetical 10% increase in our estimate of the ETV of a mileage credit would decrease annual passenger revenue by approximately $100 million, as a result of an increase in the amount of revenue deferred from the mileage component of passenger ticket sales.

Sale of mileage credits. Customers may earn mileage credits based on their spending with participating companies such as credit card companies, hotels and car rental agencies with which we have marketing agreements to sell mileage credits. Our contracts to sell mileage credits under these marketing agreements have multiple performance obligations. During the three months ended March 31, 2018 and 2017, total cash sales from marketing agreements were $841 million and $757 million, respectively, which are allocated to travel and other performance obligations, as discussed below.

Our most significant contract to sell mileage credits relates to our co-brand credit card relationship with American Express. Our agreements with American Express provide for joint marketing, grant certain benefits to Delta-American Express co-branded credit card holders ("Cardholders") and American Express Membership Rewards program participants, and allow American Express to market using our customer database. Cardholders earn mileage credits for making purchases using co-branded cards, may check their first bag for free, are granted discounted access to Delta Sky Club lounges and receive other benefits while traveling on Delta. Additionally, participants in the American Express Membership Rewards program may exchange their points for mileage credits under the SkyMiles program. We sell mileage credits at agreed-upon rates to American Express which are then provided to their customers under the co-brand credit card program and the Membership Rewards program.

We account for marketing agreements, including American Express, consistent with the accounting method that allocates the consideration received to the individual products and services delivered. We allocate the value based on the relative selling prices of those products and services, which generally consist of award travel, baggage fee waivers, lounge access and the use of our brand. We determined our best estimate of the selling prices by considering discounted cash flow analysis using multiple inputs and assumptions, including: (1) the expected number of miles awarded and number of miles redeemed, (2) ETV for the award travel obligation, (3) published rates on our website for baggage fees, discounted access to Delta Sky Club lounges and other benefits while traveling on Delta and (4) brand value.

We defer the amount for award travel obligation as part of frequent flyer deferred revenue and recognize loyalty travel awards in passenger revenue as the mileage credits are used for travel. Revenue allocated to services performed in conjunction with a passenger’s flight, such as baggage fee waivers, is recognized as travel-related services in passenger revenue when the related service is performed. Revenue allocated to access to Delta Sky Club lounges is recognized as miscellaneous in other revenue as access is provided. Revenue allocated to the remaining performance obligations, primarily brand value, is recorded as loyalty program in other revenue over time as miles are delivered.

Breakage. For mileage credits that we estimate are not likely to be redeemed ("breakage"), we recognize the associated value proportionally during the period in which the remaining mileage credits are expected to be redeemed. Management uses statistical models to estimate breakage based on historical redemption patterns. A change in assumptions as to the period over which mileage credits are expected to be redeemed, the actual redemption activity for mileage credits or the estimated fair value of mileage credits expected to be redeemed could have a material impact on our revenue in the year in which the change occurs and in future years. At March 31, 2018, the aggregate deferred revenue balance associated with the SkyMiles program was $6.4 billion. A hypothetical 10% change in the number of outstanding miles estimated to be redeemed would result in an approximately $200 million impact on annual revenue recognized.

Recent Accounting Standards

Comprehensive Income. In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)." This standard provides an option to reclassify stranded tax effects within AOCI to retained earnings due to the U.S. federal corporate income tax rate change in the Tax Cuts and Jobs Act of 2017. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. We have not completed our assessment, but the adoption of the standard may impact tax amounts stranded in AOCI related to our pension plans. We will adopt this standard effective January 1, 2019.

Supplemental Information

We sometimes use information ("non-GAAP financial measures") that is derived from the Condensed Consolidated Financial Statements, but that is not presented in accordance with GAAP. Under the U.S. Securities and Exchange Commission rules, non-GAAP financial measures may be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results.

The following table shows a reconciliation of pre-tax income (a GAAP measure) to pre-tax income, adjusted for special items (a non-GAAP financial measure). We adjust pre-tax income for mark-to-market ("MTM") adjustments and settlements on fuel hedge contracts, the MTM adjustments recorded by our equity method investees, Virgin Atlantic and Aeroméxico, and unrealized gains/losses on our investments in GOL, China Eastern and Air France-KLM, to determine pre-tax income, adjusted for special items.

MTM adjustments are defined as fair value changes recorded in periods other than the settlement period. Such fair value changes are not necessarily indicative of the actual settlement value of the underlying hedge in the contract settlement period. Settlements represent cash received or paid on hedge contracts settled during the period. We record our proportionate share of earnings/loss from our equity investments in Virgin Atlantic and Aeroméxico and the unrealized gain/loss on our investments in GOL, China Eastern and Air France-KLM in non-operating expense. Adjusting for these items allows investors to better understand and analyze our core operational performance in the periods shown.

	Three Months Ended March 31,	
(in millions)	**2018**	**2017**
Pre-tax income	$718	$849
Adjusted for:		
MTM adjustments and settlements	(27)	(84)
Equity investment MTM adjustments	3	16
Unrealized gain on investments	(18)	—
Pre-tax income, adjusted for special items	$676	$781

The following table shows a reconciliation of TRASM (a GAAP measure) to TRASM, adjusted (a non-GAAP financial measure).

- *Third-party refinery sales.* We adjust TRASM for refinery sales to third parties to determine TRASM, adjusted because these revenues are not related to our airline segment. TRASM, adjusted therefore provides a more meaningful comparison of revenue from our airline operations to the rest of the airline industry.

	Three Months Ended March 31,	
	2018	**2017**
TRASM	16.77¢	15.73¢
Adjusted for:		
Third-party refinery sales	(0.36)	(0.11)
TRASM, adjusted	16.41¢	15.62¢

The following table shows a reconciliation of CASM (a GAAP measure) to CASM-Ex (a non-GAAP financial measure). We adjust CASM for the following items to determine CASM-Ex, for the reasons described below:

- *Aircraft fuel and related taxes.* The volatility in fuel prices impacts the comparability of year-over-year financial performance. The adjustment for aircraft fuel and related taxes allows investors to better understand and analyze our non-fuel costs and year-over-year financial performance.

- *Ancillary businesses and refinery.* These expenses include aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations and refinery cost of sales to third parties. Because these businesses are not related to the generation of a seat mile, we adjust for the costs related to these sales to provide a more meaningful comparison of the costs of our airline operations to the rest of the airline industry.

- *Profit sharing.* We adjust for profit sharing because this adjustment allows investors to better understand and analyze our recurring cost performance and provides a more meaningful comparison of our core operating costs to the airline industry.

	Three Months Ended March 31,	
	2018	**2017**
CASM	15.35¢	14.00¢
Adjusted for:		
Aircraft fuel and related taxes	(3.12)	(2.56)
Ancillary businesses and refinery	(0.83)	(0.51)
Profit sharing	(0.30)	(0.26)
CASM-Ex	11.10¢	10.67¢

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. Our management, including our Chief Executive Officer and Chief Financial Officer, concluded that the controls and procedures were effective as of March 31, 2018 to ensure that material information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Except as set forth below, during the three months ended March 31, 2018, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During the three months ended March 31, 2018, we implemented changes to our processes in response to the adoption for ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606)” that became effective January 1, 2018. This has resulted in a material process change to the frequent flyer and air traffic liability component of our internal control over financial reporting. The operating effectiveness of these changes will be evaluated as part of our annual assessment of the effectiveness of internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

"Item 3. Legal Proceedings" of our Form 10-K includes a discussion of our legal proceedings. Except as presented below, there have been no material changes from the legal proceedings described in our Form 10-K. The legal proceeding described below has been described previously, including in our Form 10-K. The matter is described in this Form 10-Q to include developments in the case since we filed our Form 10-K.

First Bag Fee Antitrust Litigation

In May-July 2009, a number of purported class action antitrust lawsuits were filed against Delta and AirTran Airways ("AirTran"), alleging that Delta and AirTran engaged in collusive behavior in violation of Section 1 of the Sherman Act in November 2008 based upon certain public statements made in October 2008 by AirTran's CEO at an analyst conference concerning fees for the first checked bag, Delta’s imposition of a fee for the first checked bag on November 4, 2008 and AirTran's imposition of a similar fee on November 12, 2008. The plaintiffs sought to assert claims on behalf of an alleged class consisting of passengers who paid the first bag fee after December 5, 2008 and seek injunctive relief and unspecified treble damages. All of these cases were consolidated for pre-trial proceedings in the Northern District of Georgia. On March 29, 2017, the District Court granted the defendants' motions for summary judgment. On March 9, 2018, the U.S. Court of Appeals for the Eleventh Circuit affirmed this final judgment. The time period for further appeal has not yet expired.

ITEM 1A. RISK FACTORS

"Item 1A. Risk Factors" of our Form 10-K includes a discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our Form 10-K. Except as presented below, there have been no material changes from the risk factors described in our Form 10-K.

Breaches or lapses in the security of our technology systems and the data we store could compromise passenger or employee information and expose us to liability, possibly having a material adverse effect on our business.

As a regular part of our ordinary business operations, we collect and store sensitive data, including personal information of our passengers and employees and information of our business partners. The secure operation of the networks and systems on which this type of information is stored, processed and maintained is critical to our business operations and strategy.

Our information systems, and those of our vendors and service providers, are subject to an increasing threat of continually evolving cybersecurity risks. Unauthorized parties may attempt to gain access to our systems or information, including through fraud or other means of deception. Hardware or software we develop or acquire may contain defects that could unexpectedly compromise information security.

We were notified on March 28, 2018 that a third-party vendor of chat services for Delta and other companies determined it had been involved in a cyber incident from September 26, 2017 to October 12, 2017 involving the vendor’s online tool utilized by the desktop version of delta.com. We immediately began working with the vendor, law enforcement and forensic experts to determine the impact on Delta customers and computer systems. We understand during this time period in 2017 malware present in the vendor’s software made unauthorized access possible for the following fields of information when manually completing a payment card purchase on any page of the delta.com desktop platform: name, address, payment card number, CVV number and expiration date. At this time, we understand the malware potentially exposed data on several hundred thousand Delta customers. We launched a dedicated website, www.delta.com/response, to address customer questions, and we intend to directly notify customers impacted by the vendor’s cyber incident. We will also offer free credit monitoring to impacted customers. Consequently, we will incur remedial, legal and other costs in connection with this incident.

The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or to detect for long periods of time. As a result of these types of risks and regular attacks, we regularly review and update procedures and processes to prevent and protect against unauthorized access to our systems and information and inadvertent misuse of data. However, the constantly changing nature of the threats means that we may not be able to prevent all data security breaches or misuse of data.

The compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, customers', employees' or business partners' information or failure to comply with regulatory or contractual obligations with respect to such information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disruption to our operations and damage to our reputation, any or all of which could adversely affect our business. The costs to remediate breaches and similar system compromises that do occur could be material. In addition, as cybercriminals become more sophisticated, the cost of proactive defensive measures may increase.

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

The following table presents information with respect to purchases of common stock we made during the March 2018 quarter. The total number of shares purchased includes shares repurchased pursuant to our $5 billion share repurchase program, which was publicly announced on May 11, 2017 and will terminate no later than December 31, 2020. Some purchases made in the March 2018 quarter were made pursuant to a trading plan meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934.

In addition, the table includes shares withheld from employees to satisfy certain tax obligations due in connection with grants of stock under the Delta Air Lines, Inc. Performance Compensation Plan (the "Plan"). The Plan provides for the withholding of shares to satisfy tax obligations. It does not specify a maximum number of shares that can be withheld for this purpose. The shares of common stock withheld to satisfy tax withholding obligations may be deemed to be "issuer purchases" of shares that are required to be disclosed pursuant to this Item.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value (in millions) of Shares That May Yet be Purchased Under the Plan or Programs
January 2018	377,226	$57.04	377,226	$ 4,650
February 2018	1,008,732	$54.42	1,008,732	$ 4,625
March 2018	5,108,260	$55.69	5,108,260	$ 4,350
Total	6,494,218		6,494,218	

ITEM 6. EXHIBITS

(a) Exhibits

10.1	Model Award Agreement for the Delta Air Lines, Inc. 2018 Long-Term Incentive Plan
12.1	Computation of ratio of earnings to fixed charges
15	Letter from Ernst & Young LLP regarding unaudited interim financial information
31.1	Certification by Delta's Chief Executive Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018
31.2	Certification by Delta's Executive Vice President and Chief Financial Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018
32	Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code by Delta's Chief Executive Officer and Executive Vice President and Chief Financial Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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.

Delta Air Lines, Inc.
(Registrant)

/s/ Craig M. Meynard
Craig M. Meynard
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

April 12, 2018

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