

B&D outlook, stock down

Lower earnings forecast because of housing slump, drill recall

By Allison Connolly | Sun Reporter

December 15, 2007

A recall of some DeWalt XRP cordless power drills is bad timing for Black & Decker Corp.

The Towson-based power tools maker lowered its fourth-quarter earnings projections yesterday by at least a third from its previous estimate, blaming the recall of the professional-grade drills, along with a housing slump that's crimping sales more than it had anticipated.

The company said it now expects fourth-quarter sales, excluding currency conversions, to decline rather than show the modest gain it previously projected. It also lowered its earnings projection for the full year.

Black & Decker shares tumbled to a 52-week low on the news, shedding \$6.82, or 8.5 percent, to close at \$73.31 on the New York Stock Exchange.

Black & Decker said it would take a fourth-quarter charge of about \$25 million to cover the estimated cost of repairs as well as the return of unsold drills. They were manufactured during the past 18 months.

A company spokesman said the company will begin pulling the heavy-duty drills from store shelves next week because of a potential fire hazard. No injuries have been reported, the company said.

The spokesman, Roger Young, said retailers have been more cautious this year about ordering, and that sales over the Thanksgiving weekend didn't reach expected levels. But he said that wasn't as much of a dent as in the fourth quarter a year ago, when retailers cut back on inventory.

Black & Decker also announced that settlement of an income tax dispute with the government would add \$150 million to earnings, the amount the company had set aside in a reserve pending the outcome of the case.

Excluding the tax settlement, Black & Decker now expects to report earnings per diluted share of \$1.03 for the quarter and \$6 for the year. Previously, the company had forecast fourth-quarter earnings of \$1.55 to \$1.65 a share and full-year earnings of between \$6.50 and \$6.60.

Analyst John Kearney, of Morningstar Inc. in Chicago, said Wall Street is more concerned about the worse-than-expected impact of the housing market than the recall.

"I think people are a bit nervous that it will spill into 2008," said Kearney, who does not own shares in Black & Decker.

While less than 20 percent of Black & Decker's sales are tied to homebuilding, Kearney said home renovations are also down, which means less demand for the company's Kwikset locks and Price Pfister faucets.

The tax settlement announced yesterday concludes a nearly decade-old dispute with the Internal Revenue Service.

Black & Decker sued the government, claiming it was owed a \$57 million refund for capital losses of \$560 million related to a subsidiary it created in 1998 to help control medical costs.

The company sold the stock in that subsidiary to a retired executive for \$1 million and claimed a tax-deductible loss on the stock to offset capital gains on asset sales during the period.

Tax loss disputed

The government countersued, accusing the company of setting up an illegal tax shelter.

A U.S. District Court judge ruled in favor of Black & Decker, without a trial, saying that while the company benefited from the tax transaction, the subsidiary had a legitimate purpose. However, last year the 4th U.S. Circuit Court of Appeals in Richmond, Va., sided with the government and sent the case back to District Court for trial.

Lesser penalty

As part of the settlement, Black & Decker said it agreed to pay the government \$50 million in 2008, considerably less than the \$180 million the company expected pay if it lost the case.

Including the tax settlement, Black & Decker expects earnings per diluted share of \$3.39 for the quarter and \$8.27 for the year.

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