

# UNITED STATES INTERNATIONAL TRADE COMMISSION

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In the Matter of: ) Investigation Nos.:  
TOOL CHESTS AND CABINETS FROM CHINA ) 701-TA-575 AND  
AND VIETNAM ) 731-TA-1360-1361 (FINAL)

Pages: 1 - 260  
Place: Washington, D.C.  
Date: Tuesday, November 28, 2017



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UNITED STATES OF AMERICA  
BEFORE THE  
INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF: ) Investigation Nos.:  
TOOL CHESTS AND CABINETS FROM ) 701-TA-575 AND  
CHINA AND VIETNAM ) 731-TA-1360-1361 (FINAL)

Main Hearing Room (Room 101)  
U.S. International Trade  
Commission  
500 E Street, SW  
Washington, DC  
Tuesday, November 28, 2017

The meeting commenced pursuant to notice at 9:30  
a.m., before the Commissioners of the United States  
International Trade Commission, the Honorable Rhonda K.  
Schmidtlein, Chairman, presiding.

1 APPEARANCES:

2 On behalf of the International Trade Commission:

3 Commissioners:

4 Chairman Rhonda K. Schmidtlein (presiding)

5 Vice Chairman David S. Johanson

6 Commissioner Irving A. Williamson

7 Commissioner Meredith M. Broadbent

8

9 Staff:

10 William R. Bishop, Supervisory Hearings and Information

11 Officer

12 Sharon Bellamy, Records Management Specialist

13 Yasmyne Hilliard, Student Intern

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15 Abu B. Kanu, Investigator David Guberman, International

16 Trade Analyst

17 Amelia Preece, International Economist

18 Emily Kim, Accountant/Auditor

19 Nataline Viray-Fung, Attorney/Advisor

20 Douglas Corkran, Supervisory Investigator

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1 APPEARANCES:

2 Opening Remarks:

3 Petitioner (Kathleen W. Cannon, Kelley Drye & Warren LLP)

4 Respondents (David M. Spooner, Barnes & Thornburg LLP)

5

6 In Support of the Imposition of Antidumping and

7 Countervailing Duty Orders:

8 Kelley Drye & Warren LLP

9 Washington, DC

10 on behalf of

11 Waterloo Industries Inc. ("Waterloo")

12 William Nictakis, President and Chief Executive

13 Officer, Waterloo

14 Matthew Sallee, Vice President of Marketing and

15 Innovation, Waterloo

16 Scott Calder, Manager, AMS, Scottline Value Stream,

17 Waterloo

18 Jason Stremmel, Global Metal Storage Operations Leader,

19 Stanley Black and Decker

20 Mitchell Liss, Vice President, Metal Box International

21 Chris Kruger, Sales Director, Metal Box International

22 Gina E. Beck, Economist, Georgetown Economic Services

23 Kathleen W. Cannon, Paul C. Rosenthal, R. Alan Luberd,

24 Brooke M. Ringel and Joshua R. Morey - Of Counsel

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1 In Opposition to the Imposition of Antidumping and  
2 Countervailing Duty Orders:

3 Barnes & Thornburg LLP

4 Washington, DC

5 on behalf of

6 Zhongshan Geelong Manufacturing Co. Ltd

7 Geelong Sales (MCO) Ltd.

8 Geelong Sales Co. International (HK) Ltd.

9 (collectively "Geelong")

10 Alistair Hanson-Currie, Business Development, Director  
11 of Geelong

12 Jamie Enger, President, Jenger LLC

13 Jon Fiscus, Founder and President, Emeritus of Geelong  
14 USA; and Board Advisor for Geelong

15 Bruce Malashevich, Economist, Economic Consulting  
16 Services LLC

17 Curtis Edward, Economist, Economic Consulting Servics  
18 LLC

19 David M. Spooner and Christine J. Sohar Henter - Of  
20 Counsel

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1 Baker & McKenzie LLP

2 Washington, DC

3 on behalf of

4 Sears Holding Corporation

5 Kelly Boyle, Craftsman Product Manager, Sears Holding  
6 Corporation

7 Kevin M. O'Brien and Christine M. Streatfeild - Of  
8 Counsel

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10 Grunfeld, Desiderio, Lebowitz, Silverman & Klestadt LLP

11 Washington, DC

12 on behalf of

13 Shanghai Hom-Steel Industry Co., Ltd.;

14 Shanghai All-Fast International Trade Co., Ltd and

15 Steelman EasyLife, Inc. (collectively "Hom-Steel")

16 Julie LeBell, Vice President of Sales, Shanghai Hom-  
17 Steel Industry Co. Ltd.

18 Kavita Mohan - Of Counsel

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20 Mowry & Grimson, PLLC

21 Washington, DC

22 on behalf of

23 HMC Holdings LLC ("HMC")

24 David Moyer, President, HMC

25 Kristin H. Mowry and Jeffrey S. Grimson - Of Counsel

1 APPEARANCES (Continued):

2 Adduci Mastriani & Schaumberg LLP

3 Washington, DC

4 on behalf of

5 Harbor Freight Tolls USA, Inc.

6 Louis S. Mastriani, Deanna Tanner Okun, Elizabeth Duall

7 Regard and Rowan M. Dougherty - Of Counsel

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10 Rebuttal/Closing Remarks:

11 Petitioner (Kathleen W. Cannon and Paul C. Rosenthal, Kelley

12 Drye & Warren LLP)

13 Respondents (Kevin M. O'Brien, Baker & McKenzie LLP; and

14 Deanna Tanner Okun, Adduci Mastriani & Schaumberg LLP)

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9:36 a.m.

MR. BISHOP: Will the room please come to order?

CHAIRMAN SCHMIDTLEIN: Good morning again. On behalf of the U.S. International Trade Commission I welcome you to this hearing on Investigation Nos. 701-TA-575 and 731-TA-1360 to 1361 involving tool chests and cabinets from China and Vietnam.

The purpose of these Investigations is to determine whether an industry in the United States is materially injured or threatened with material injury or the establishment of an industry in the United States is materially retarded by reason of imports of tool chests and cabinets from China and Vietnam.

Schedule setting forth the presentation of this hearing, notices of investigation and transcript order forms are available at the public distribution table. All prepared testimony should be given to the Secretary. Please do not place testimony directly on the public distribution table. All witnesses must be sworn in by the Secretary before presenting testimony.

I understand that the parties are aware of the time allocations. Any questions regarding the time allocations should be directed to the Secretary. Speakers are reminded not to refer in their remarks or answers to

1 questions business proprietary information. Please speak  
2 clearly into the microphones and state your name for the  
3 record for the benefit of the court reporter. If you will  
4 be submitting documents that contain information you wish  
5 classified as business confidential your request should  
6 comply with commission rule 201.6.

7 Mr. Secretary, are there any preliminary matters?

8 MR. BISHOP: No, Madam Chairman.

9 CHAIRMAN SCHMIDTLEIN: Very well. Let us begin  
10 with opening remarks.

11 MR. BISHOP: Opening remarks on behalf of  
12 Petitioner will be given by Kathleen W. Cannon of Kelley,  
13 Drye and Warren. Miss Cannon, you have five minutes.

14 OPENING STATEMENT OF KATHLEEN W. CANNON

15 MS. CANNON: Good morning Chairman Schmidtlein  
16 and Members of the Commission and Staff. I am Kathleen  
17 Cannon of Kelley Drye appearing today on behalf of the  
18 Petitioner, Waterloo Industries. Waterloo is a Domestic  
19 Producer of tool chest and cabinets like the one you see  
20 before you.

21 Waterloo's products are of extremely high quality  
22 as reflected in its selection as producer of tool chests for  
23 sale under the iconic Craftsman brand name. Waterloo's tool  
24 chests have also been sold under other well-recognized and  
25 respected brands. In fact, this year Lowe's selected

1 Waterloo as a Vendor of the Year for Innovation  
2 demonstrating the outstanding and innovative nature of its  
3 tool chest.

4 The only other U.S. Producer of this product,  
5 MBI, also manufactures high quality tool chests that are  
6 often sold by the Husky brand name by Home Depot.  
7 Unfortunately, as is true of so many U.S. Industries you  
8 have seen manufacturing a high quality product is not enough  
9 when the industry faces competition for unfairly priced  
10 imports.

11 Beginning from an already significant volume  
12 level in U.S. Market Share in 2014, Subject Import volumes  
13 increased to capture a dominant share of the U.S. Market by  
14 2016. Non-subject imports are a tiny and declining part of  
15 the U.S. Market so all of the market share growth of the  
16 Subject Imports over the period came at a direct expense of  
17 the U.S. Industry.

18 The manner at which the subsidized and dumped  
19 imports from China and Vietnam captured the sale is exactly  
20 the same as you have seen in so many cases -- price. The  
21 major purchasers of the subject tool chests are big box  
22 retailers like Sears, Home Depot, Lowes and Wal-Mart. These  
23 companies aggressively seek out low price product including  
24 tool chests to offer customers. Black Friday is a  
25 particular focal point of sales for this product where is

1 promoted heavily on the basis of price.

2           You may have seen the Washington Post inserts  
3 from last week. Here is the last one from Home Depot, Black  
4 Friday savings. Here's one from Lowe's, Black Friday  
5 savings -- both of which show tool chests prominently on the  
6 very first pages and internally as well, promoting them on  
7 the basis of price. Although Respondents noted that price  
8 has nothing to do with purchase decisions, data of record  
9 prove otherwise.

10           Direct import sales comprise the vast majority of  
11 sales in this market because the big box retailers have  
12 figured out it saves them money not to have the middleman  
13 importer. They go directly to China and Vietnam and source  
14 tool chests like other products at incredibly low prices.  
15 As you have recognized in past cases, it is important to  
16 rely on these direct import prices where, as here, direct  
17 imports account for the bulk of the sales.

18           The pricing data for these direct import sales  
19 show underselling by Subject Imports in the vast majority of  
20 comparisons on both the quarterly basis and a volume basis  
21 and by substantial margins. Even the Vietnamese producer  
22 complained about the rock bottom prices at which the Chinese  
23 tool chests are sold. Please ask yourselves, if the Subject  
24 Imports are truly of the higher quality and innovative  
25 nature Respondents claim, why are they significantly

1 underselling U.S. Producer prices?

2 Our industry witnesses will testify to the  
3 substantial price cuts they have made to try to compete with  
4 imports. Those price cuts, as well as the lost business to  
5 the imports had a direct effect on the industry's bottom  
6 line leading to reduced sales and profits. The Domestic  
7 Industry has suffered declines to abysmal levels in all key  
8 trade and financial variables over the period.

9 The injury is so bad that MBI was on the brink of  
10 shutting down right before we filed this case. No end is in  
11 sight from this injury. Capacity to produce the Subject  
12 product in China and Vietnam is huge, has increased over the  
13 period and will increase even further. Idle capacity is  
14 massive. The Foreign Producers are heavily export-oriented  
15 and they target the U.S. Market.

16 They've demonstrated an ability to rapidly  
17 increase imports and are on the verge of wiping out this  
18 industry. The Respondents' attempts to blame the injury the  
19 industry has suffered on other factors are unavailing.  
20 Sears' financial woes as a company neither explains their  
21 decline in tool chest sales nor the decisions by other  
22 retailers to source imports in lieu of the U.S. Product,  
23 which both Waterloo and MBI have been actively trying to  
24 sell to multiple buyers during the period.

25 It is not a lack of quality, innovation or offers

1 by the U.S. Industry that has led the retailers to buy from  
2 China or Vietnam. It is the much lower prices they offer as  
3 their own words that we will provide to you demonstrate. If  
4 this behavior is not halted yet another Domestic Industry  
5 will soon cease to exist. I urge the Commission to issue an  
6 affirmative determination in this case. Thank you.

7 COMMISSIONER SCHMIDTLEIN: Thank you.

8 MR. BISHOP: Opening remarks on behalf of the  
9 Respondents will be given by David M. Spooner of Barnes and  
10 Thornburg. Mr. Spooner you have five minutes.

11 OPENING STATEMENT OF DAVID M. SPOONER

12 MR. SPOONER: Madam Chairman, Honorable  
13 Commissioners, I am David Spooner counsel for Geelong, a  
14 Respondent from this case. I am joined by key players from  
15 throughout the tool storage industry. From representatives  
16 of major U.S. Manufacturers to key U.S. sales  
17 representatives to a pivotal retailer.

18 We are here to provide as accurate a picture as  
19 possible of the market and of the like product. We are  
20 eager to answer all of your questions and to assist the  
21 Commission in coming to a proper understanding that imports  
22 are by no means the cause of Waterloo's struggles.

23 These investigations are extraordinary.  
24 Particularly, Waterloo has for years relied upon sales to  
25 Sears to the point that Waterloo rejected opportunities to



1 partner with other retailers. Faced with the precipitous  
2 decline of Sears over the POI, Waterloo was unable or  
3 unwilling to supply growing retailers such as the Home  
4 Depot. For this I point you to page 12 of Home Depot's  
5 brief as an example.

6 Meanwhile, Waterloo increasingly refused to  
7 innovate in a timely way for its key customer, Sears,  
8 forcing Sears to look offshore for high and medium end  
9 products. You will hear Sears testify today about how  
10 Waterloo during the POI refused to supply new products and  
11 ceased production of stainless steel tool chests, forcing  
12 Sears to look for another supplier.

13 Sears and The Home Depot are the predominant  
14 players in the tool chest market. I'm sure I don't need to  
15 ask this but please read Sears and The Home Depot's briefs.  
16 They are damning. The record is replete with other evidence  
17 that Waterloo's own choices, not Subject Imports are the  
18 cause of the company's poor performance.

19 The record, for example, shows no negative price  
20 effects from Subject Imports and on a related point, I can't  
21 resist, we brought our own Black Friday Ads which show  
22 Waterloo products on sale at Sears and Lowes for, there's  
23 one product, one ad here where the tool chest was 500  
24 dollars and now it is being sold here for 200 dollars for  
25 Black Friday.

1           But the lack of negative price effects is  
2           remarkable and just what you'd expect when a company has  
3           refused to supply high to medium end and innovative products  
4           to potential customers. All of the above is against the  
5           backdrop of an effort by Waterloo's private equity owners to  
6           rid themselves of the Petitioner, to sell Waterloo at a  
7           hefty profit.

8           This summer, Stanley Black and Decker bought  
9           Waterloo from the equity firm AFA Partners. Stanley did so  
10          quietly, no press release, no disclosure in an SEC filing;  
11          nothing. When word got out on the street about the  
12          acquisition though, it helped respondents understand certain  
13          amendments the Petitioner had made successfully to the scope  
14          prior to the sale. David Moyer of HMC will spend a portion  
15          of his testimony explaining how the scope was crafted to  
16          benefit Stanley.

17          I should also discuss domestic like product  
18          issues, though I should stress the record readily supports a  
19          negative determination even if the Commission decides not to  
20          resolve like product issues. The scope of the Petition  
21          covers retail tool chests and excludes so-called industrial  
22          chests defining industrial products with a complicated  
23          weight-to-width table among other factors.

24          Petitioners claim that so called retail and  
25          industrial chests have different physical characteristics

1 and uses, are not interchangeable, have different channels  
2 of distribution, are perceived differently by customers,  
3 require different production processes and employees and  
4 entail different prices.

5 As we trust will become evident, the Petition  
6 distinction between so-called retail and industrial products  
7 is a fiction. Respondents are all in agreement that the  
8 domestic like product is properly defined as both so-called  
9 retail and industrial products and that the industry should  
10 include producers of both industrial and retail tool chests.

11 The tool chest and tool box industry is marked by  
12 a broad range of products that share common physical  
13 characteristics and uses, are interchangeable, are sold  
14 through common channels of distribution, produced in the  
15 same manufacturing facilities and are bought and available  
16 to a common group of consumers.

17 Indeed, just yesterday Commerce released a scope  
18 decision memorandum in the underlying investigation and  
19 found that "there appears to be an overlap in the  
20 marketplace between in-scope merchandise and industrial  
21 grade products." This is on page 18 of Commerce's Scope  
22 Memorandum. You bet there's an overlap.

23 The Home Depot's number one selling product  
24 online is an out-of-scope so-called industrial chest that  
25 Petitioner claims isn't even sold at retail. Our witnesses

1 will testify about how their in-scope retail products are  
2 routinely purchased for use in industrial settings and about  
3 how they produce out of scope industrial merchandise and  
4 sell that merchandise for home and do-it-yourself use.

5 A lot of our experts elucidate this point further  
6 with a lot of the examples we have before us but suffice it  
7 to say there are two large tool chests on the wall, one is  
8 in scope and one is out of scope. I would challenge the  
9 Commission to, I should phrase this carefully, to surmise  
10 which one is in scope and which is out of scope and to judge  
11 if consumers perceive those two products differently.

12 Thank you Honorable Commissioners again for  
13 allowing us to come today and we look forward to answering  
14 all of your questions.

15 MR. BISHOP: Would the Panel in support of  
16 imposition of antidumping and countervailing duties please  
17 come forward and be seated. Madam Chairman, all witnesses  
18 on this Panel have been sworn in. This Panel has 60 minutes  
19 for their direct testimony.

20 CHAIRMAN SCHMIDTLEIN: Thank you, Mr. Secretary.

21 MS. CANNON: Thank you, Commissioner. Chairman  
22 Schmidtlein. First witness will be Mr. Nictakis.

23 STATEMENT OF WILLIAM NICTAKIS

24 MR. NICTAKIS: Good morning. My name is William  
25 Nictakis. I am the President of Waterloo Industries.

1 Waterloo is the oldest and largest remaining producer of  
2 retail tool chests and cabinets in the United States. Our  
3 last remaining facility for the production of these products  
4 is located in Sedalia, Missouri.

5 We very much appreciate that members of the  
6 Commission Staff were able to visit our Sedalia plant last  
7 month, to see our production process and our range of  
8 products first hand. I'd encourage you to ask them to  
9 describe the highly automated, high speed process we use to  
10 produce tool chests.

11 The tool chests we manufacture using these  
12 operations as well as the operations themselves demonstrate  
13 quite clearly that our retail tool chests are very different  
14 from the industrial tool chests that opposing parties have  
15 argued are the same product.

16 Let me start by describing the production process  
17 for retail tool chests. Typically, we begin with steel  
18 coils that we slit in house into widths suitable for forming  
19 the various bodies and drawers of the units, as you can see  
20 in Slide no.1. The slit steel is then fed into a series of  
21 high speed, high volume automated presses with hard tooling  
22 that can produce 700 to 1500 parts per hour. Our highly  
23 automated welding stations can then weld up to 500 drawers  
24 per hour and over 100 chests and cabinets each hour.

25 Our three eco paint lines have the capacity to

1 paint 900 finished units per hour and run up to three  
2 different colors at any one time. The next step is our  
3 high-speed assembly. For our 26 inch tool chest, we'd  
4 assemble about 100 units per hours, adding ball bearing  
5 slides, casters, name plates and any other accessories  
6 requested by the customer.

7 The sample tool chest we brought here today is a  
8 top chest and cabinet combination unit produced by Waterloo.  
9 The size ranges, number and configurations of the drawers  
10 and weight are designed to fit in the average  
11 do-it-yourselfer's garage or basement. To accommodate their  
12 typical tool storage needs, not the needs of a professional  
13 mechanic. The prices are also far less than industrial tool  
14 chests.

15 As you will hear from Jason Strummel of Stanly  
16 Black and Decker the process used for industrial tool chests  
17 is very different from the process I described, as is the  
18 resulting product. Unfortunately, I found out just how  
19 different when I tried to relocate Waterloo's industrial  
20 tool chest production line from our Mexico Facility up to  
21 Sedalia in 2015.

22 Since then, Waterloo has produced a small volume  
23 of industrial tool chests in Sedalia but those products are  
24 produced in an entirely different and dedicated part of our  
25 facility using different equipment and workers. The

1 industrial workers we employ are a higher skill level with  
2 higher pay to make these customized, manually produced  
3 products.

4 Now that I have described the product and  
5 production process, let me explain what led Waterloo to file  
6 this case. I was brought in as a consultant to Waterloo in  
7 2014 by its former owner, Fortune Brands. I had a chance to  
8 meet the proud men and women who were producing a high  
9 quality product sold under brands with sterling reputations  
10 and using a very efficient manufacturing operation.

11 MR. NICTAKIS: Yes, the business had shrunk by  
12 tens of millions of dollars due to the import competition.  
13 And many people had already lost their jobs.

14 In fact by 2014, Sedalia had half the workers  
15 from the level a decade earlier. Fortune Brands was tired  
16 of fighting what appeared to be a losing battle with imports  
17 and had decided to either sell the business or shut it down.

18 Rather than see the company close, I spoke with  
19 the Fortune Brands CEO and decided to try to put together a  
20 group of investors to buy Waterloo. I put a significant  
21 portion of my personal savings into the business and we  
22 raised money from a small group of private contacts for the  
23 rest.

24 I went into this with a strategy of leveraging  
25 our low cost automation, strong innovation track record, and

1 high quality products to sell new business and further  
2 expand production. Our goal was to maintain and then grow  
3 our business, expand the workforce here in Sedalia, and save  
4 the last major U.S. manufacturer of retail tool chests and  
5 cabinets.

6 We signed a contract to purchase Waterloo from  
7 Fortune Brands at 11:32 on Friday, September 4th, 2015.  
8 There was a midnight deadline by the Fortune Brands CEO to  
9 execute the contract or I was to show up to Sedalia that  
10 Tuesday and shut it down.

11 We got it done, but the reality is that 400  
12 workers at Waterloo had come within 28 minutes of being  
13 unemployed. That's a frightening prospect in a small rural  
14 town of 21,000 like Sedalia.

15 We had a good plan for our new business, but  
16 surging volumes of low price imports from China and Vietnam  
17 continued to cause problems. The imports undercut our  
18 prices, they took millions of dollars of our sales, and  
19 severely eroded the prices and the profits on our remaining  
20 sales. That was when we decided to file this case.

21 Before the trade case, we were consistently told  
22 by customers that we were priced too high compared to the  
23 Chinese and Vietnamese competition. I was never told by a  
24 customer there was a problem with our quality or with our  
25 product offerings, but we can't give our product away. The



1 low price imports caused us to price products at or below  
2 costs simply to keep the factory running. We idled some  
3 shifts and production lines and had to consider future  
4 further employee layoffs.

5 Since filing a trade case, we have started to  
6 regain the business that we lost to imports. Instead of  
7 layoffs, we've been able to put people back to work. And  
8 this case is making a real difference in peoples' lives.

9 A woman came up to me a couple of months ago at  
10 the Applebees in Sedalia to thank me for hiring her husband  
11 this year for a job out on our production floor. She told  
12 me that because of his employment, her family now had health  
13 insurance for their four kids and her husband had more  
14 self--esteem than he'd felt in years.

15 These descriptions of Waterloo's experience  
16 before and after the trade case filing represent the  
17 alternative futures for the company and our workers. In one  
18 future, the unfairly traded imports from Chinese and Vietnam  
19 producers continue to take sales from Waterloo, destroy our  
20 financial health, and eventually lead to job layoffs, and  
21 ultimate plant closure.

22 In the other future, the foreign producers are  
23 forced to trade fairly and the U.S. manufacturing industry  
24 regrows its business, puts people back to work, and returns  
25 to financial health. We're trusting you to remedy these

1 unfair imports so that our future and our people's future  
2 can be a positive one. Thank you.

3 STATEMENT OF JASON STREMMEL

4 MR. STREMMEL: Good morning. My name is Jason  
5 Stremmel and I'm the global operations leading for metal  
6 storage at Stanley Black and Decker or SBD for short. I've  
7 been with SBD for over nine years. And SBD is a U.S.  
8 manufacture of industrial tool chests. Until recently, we  
9 did not have the facilities to produce retail tool chests  
10 and cabinets, which is a very different product. That is  
11 precisely why we purchased Waterloo Industries earlier this  
12 year.

13 I understand that arguments have been presented  
14 to the Commission by importers of the dumped product  
15 suggesting that retail tool chests are the same product,  
16 produced in the same manner, and sold to the same customers  
17 at similar prices as industrial tool chests.

18 Nothing could be further from the truth. In  
19 fact, our customers are industrial, government, defense  
20 contractors, and commercial companies. SBD does not cater  
21 to the retail consumer.

22 SBD has been in the business of manufacturing  
23 industrial tool chests since 1964. We manufacture them in  
24 plants located in Ohio, Pennsylvania, and Massachusetts.  
25 The manufacturing process for the production of our

1 industrial tool chests is very different from the process  
2 Mr. Nictakis described for producing retail tool chests and  
3 results in a very different product as well.

4 Unlike retail tool chests, industrial tool  
5 chests are custom configured for each individual purchaser.  
6 SBD works -- SBD begins by working with each specific  
7 customer to identify what types of features, dimensions,  
8 layouts, color, low capacity, et cetera that customers want  
9 based on the nature of its storage needs.

10 Because these products are custom produced, SBD  
11 and other producers of industrial tool chests cannot use the  
12 hard tooling and automated high speed production process  
13 that Mr. Nictakis described. To produce industrial  
14 products, SBD must manually undertake each production step.

15 For example, we can't run industrial tool chests  
16 through the automated welding machines that Waterloo uses,  
17 because the welding requirements and weld locations vary  
18 from unit to unit.

19 For the painting phase of the process, we use  
20 powder coating for each unit. Because industrial tool  
21 chests are so heavy, final assembly requires equipment to  
22 lift and move the unit and SBD can only assemble about five  
23 industrial tool chests per hour.

24 Finally industrial tool chests are typically  
25 shrink-wrapped with plastic cover and secured on a pallet

1 with straps as you can see in slide 6, not packaged in  
2 corrugated boxes for retail sale.

3 Our employees who produce industrial tool chests  
4 are not specially trained in these labor-intensive  
5 operations. None of these employees produce retail -- I'm  
6 sorry, they are specially trained. None of these employees  
7 produce retail tool chests.

8 The resulting products are also very different.  
9 Industrial products are made of much thicker gauge, are  
10 larger in dimension, and are able to sustain a far greater  
11 weight load than the retail product. Here's a photo of one  
12 of our industrial tool chests next to a retail tool chest.

13 Although you might hear of a retail tool chest  
14 marketed as heavy duty or professional, that does not mean  
15 the tool chest is an industrial product. That is just  
16 marketing.

17 The difference between the retail product and  
18 the industrial product in physical characteristics is night  
19 and day. An even more significant difference occurs in the  
20 sales and marketing of the two types of products.

21 And contrasted, tool chests sold in retail  
22 outlets -- sales of industrial tool chests involve intense  
23 one-on-one sales activity. Rather than the customer coming  
24 to a retail store, we at SBD sit down with each customer and  
25 work with them to design the custom tool chest they need.

1 The product is then delivered to their facility by truck by  
2 an independent operator meaning someone who comes to your  
3 work site, installs the chest and removes all the  
4 packaging.

5 We also generally follow up with the customer  
6 with service visits and to sell them tools for their  
7 industrial storage system. This is a full service  
8 operation.

9 Our competitors in the industrial tool chest  
10 industry are also entirely different. SBD's competitors are  
11 companies like Snap-on, Matco, and Cornwell, who produce and  
12 market the industrial tool chests in the same way that SBD  
13 does.

14 As you can imagine, the nature of this custom  
15 designed product and personalized service comes with a  
16 price. Industrial tool chests costs many times the price of  
17 the retail tool chests. The model in the picture on slide 7  
18 sells for about \$10,000. The price of an industrial tool  
19 chests typically exceeds \$2,000.

20 Before 2017, SBD imported retail tool chests  
21 from China to supply retailers like big box stores because  
22 we were unable to produce them. We found that the imported  
23 retail tool chests from China were interchangeable with  
24 domestically produced retail tool chests, but were much  
25 lower priced, but SBD decided we would rather produce retail

1 tool chests ourselves than have to import them.

2 SBD first assessed how costly it would be to  
3 alter and expand our existing manufacturing facilities to  
4 produce retail tool chests as well. We discovered that the  
5 very different and much more automated nature of producing  
6 retail tool chests would require a substantial investment in  
7 and expansion of our existing industrial tool chest  
8 manufacturing facilities. It was essentially building a  
9 whole new facility.

10 As a result, we concluded that it was more cost  
11 advantageous for SBD to purchase an existing producer than  
12 to undertake such an investment. That is why SBD decided to  
13 purchase Waterloo earlier this year.

14 We travelled to Sedalia and observed Waterloo's  
15 impressive operations. All of the automated equipment for  
16 punching, pressing, welding, and painting that Mr. Nictakis  
17 described are what SBD needed to produce retail tool chests.  
18 As an expert in industrial tool chest manufacturing, we also  
19 decided that we would relocate Waterloo's industrial  
20 equipment from Sedalia to our SBD facility in Ohio. In  
21 summary, we know Waterloo has highly efficient operations  
22 and produces a top quality product, but we also know the low  
23 import price competition it faces. We urge you to help  
24 restore fairness to this market. Thank you.

25 STATEMENT OF MATTHEW SALLEE

1                   MR. SALLEE: Good morning, my name is Matt  
2                   Sallee and I am vice president of marketing and innovation  
3                   at Waterloo Industries. I have worked at Waterloo for more  
4                   than 22 years and am very familiar with the U.S. market for  
5                   tool chests.

6                   Waterloo has at one time or another supplied  
7                   virtually all major U.S. retailers of tool chests and  
8                   cabinets. Today, I will describe how the retail market for  
9                   tool chests and -- tool chests works and how the competition  
10                  we faced from low-priced imports has resulted in Waterloo  
11                  losing nearly all of these accounts.

12                  In the U.S. market, tool chests are generally  
13                  purchased by large retailers, such as mass merchants,  
14                  department stores, and home improvement centers. These  
15                  retailers almost always directly import the product from  
16                  Vietnam and China without middle men or distributors. As a  
17                  result, we are competing with the very low prices offered by  
18                  the Chinese and Vietnam producers directly to the retailer.

19                  I often see tool chests sold at retail to  
20                  consumers at lower prices than Waterloo can offer the  
21                  retailer. We've had to cut our prices significantly just to  
22                  keep our existing business and stay competitive. Typically,  
23                  our product is sold under the brand name owned or used by  
24                  the retailer.

25                  As you see, the tool chest we brought with us is

1 a Waterloo product sold under the Craftsman brand.  
2 Craftsman is an iconic American brand of tool chests, one  
3 that has always stood for high quality and great  
4 workmanship. And Waterloo has supplied the Craftsman brand  
5 for many years, demonstrating the high quality of our  
6 product.

7 But Craftsman is not the only brand we supply.  
8 Since 2014, we have also supplied such brands as Kobalt,  
9 Hyper Tough, and Husky. These brands are sold by different  
10 retailers who would not have purchased product from Waterloo  
11 and sold it under their valued brand names if they didn't  
12 agree that we produced a high quality product.

13 The tool chest producers do not generally own  
14 the brands. Slide 8 lists the major retail brands of tool  
15 chests and the retailer at which those brands are sold. As  
16 you see, different producers can and do sell tool chests  
17 under the same brand.

18 Consumers don't really know the difference.  
19 That's why as long as the quality is acceptable, as it  
20 always had been for Waterloo, and also is for most Chinese  
21 and Vietnam producers, price drives the sale.

22 The sales process typically begins when we sit  
23 down with retailers and discuss what kind of product  
24 offerings and features they want. Whether it's Sears for  
25 its Craftsman brand or Lowes for its Kobalt brand, the



1 process is really the same. They may tell us they want  
2 several tool chests and cabinet combos and various size  
3 ranges. We will then suggest different drawer  
4 configurations and a feature set to meet their needs.

5 Some examples of these features include clam  
6 shell covers, ball bearing slides, soft closed drawers,  
7 different trim options, locking solutions, power strips,  
8 stainless steel work surfaces. On slide 9, you can see a  
9 variety of innovative features that Waterloo offers.

10 Once we decide on the features with the  
11 retailer, we provide a price for that unit. At that point,  
12 they generally also seek a price from a foreign producer  
13 like Geelong in China or Clearwater in Vietnam for an  
14 identical or similar tool chest. Price drives the sale.

15 These products are mass marketed, typically,  
16 involving thousands of units. So winning or losing one of  
17 these sales has a major effect in our business. For example  
18 between 2013 and 2014, we lost Husky business to Chinese  
19 producer Geelong causing us to layoff over 100 workers.

20 Retailers may also put a product line up for bid  
21 with price again being the focus of the purchasing decision.  
22 Some companies use reverse auctions, where low -- where the  
23 low bid gets the sale. Before these investigations were  
24 initiated, many companies simply ignored Waterloo because  
25 our product is priced significantly higher than subject

1 imports. Our sales team heard quite often that our price is  
2 not even in the ballpark of the import prices.

3 The retail tool storage business does not  
4 typically have fixed contracts that guarantee Waterloo a set  
5 volume or a specific price for an extended period of time.  
6 Although we may have supplied a particular model one year,  
7 we can lose and have lost that business the next year when  
8 subject imports of the same model are offered at a lower  
9 price.

10 While we produce a quality product and have  
11 innovative features, in the end, these sale all come down to  
12 price. As import prices have undercut our prices  
13 increasingly over the years, we have lost much of our  
14 business. Customers do not complain that our quality is  
15 subpar. They only refuse to buy our product because of  
16 price.

17 Since the case was filed and since importers  
18 have been required to post provisional duties, retailers and  
19 importers are coming back to Waterloo to buy our product  
20 again. This tells me it was never a quality issue. It was  
21 always about price.

22 Retailers did not leave Waterloo for quality  
23 issues or an inability on our part to produce a specific  
24 accessory. Likewise, they are not returning now because  
25 Waterloo's quality has suddenly improved or because we can

1 offer new accessories that we could not have in the past.

2           Additionally, to the best of my knowledge,  
3 Waterloo's facility in Sedalia is more automated and  
4 efficient than any of the foreign facilities. We offer  
5 multiple product platforms, including large sizes. In fact,  
6 41 and 52 inch tool chests have been some of our most  
7 popular units for years.

8           We can also provide any accessories the retailer  
9 desires. That being said, adding accessories costs money.  
10 And when we do offer retailers such innovations, the  
11 customers often reject our proposals on the basis of price.

12           In an attempt to stem the lost sales, we have  
13 had to offer deep price cuts. One example is a model we  
14 were selling for over \$650 just two years ago. To keep that  
15 business on the same sized product in 2016, we had to cut  
16 our price by over \$200 due to the lower priced import  
17 competition from China and Vietnam.

18           It is extremely important that the small gains  
19 we have started to see since these investigations were filed  
20 are not lost because the foreign producers' unfair pricing  
21 practices are not remedied.

22           This is the only way our sole remaining facility  
23 will remain viable. We take great pride in the hardworking  
24 people in our Sedalia, Missouri facility that have proudly  
25 spent years producing a quality product. Please help us

1 continue these operations. Thank you.

2 STATEMENT OF MITCHELL LISS

3 MR. LISS: Good morning. My name is Mitchell  
4 Liss and I am the vice president of Metal Box International.  
5 I have worked for Metal Box International referred to as MBI  
6 for 15 years. MBI's manufacturing operations are located in  
7 Franklin Park, Illinois. MBI is a longstanding producer of  
8 retail tool chests and only retail tool chests. We don't  
9 produce industrial tool chests.

10 The company was established in 1928 and my  
11 family purchased MBI in 1994. It has been a family-owned  
12 and operated business since then.

13 MR. LISS: When Waterloo filed this case against  
14 imports of tool chests earlier this year, MBI was on the  
15 verge of announcing a permanent closure by mid-2017. We  
16 delayed that decision when the trade case was filed in the  
17 hopes that this action might save our company and our  
18 workers.

19 We really view this case as the last chance to  
20 keep MBI from shutting down. Imports of tool chests from  
21 China began making inroads in the U.S. market a number of  
22 years ago on the basis of very low-price offerings. Price  
23 is paramount to our customers' purchasing decisions,  
24 especially to the big box stores who are the major buyers of  
25 this product.

1 Chinese producers, and more recently Vietnamese  
2 producers, have offered absurdly low prices to gain sales.  
3 Our customers expect us to be able to meet those prices if  
4 we want to keep their business. Our inability to meet those  
5 low prices is what led MBI to the brink of closure earlier  
6 this year. And it's not that we haven't tried to compete.  
7 We've cut our prices significantly to avoid losing sales to  
8 imports, but the competing import prices have become so low  
9 we are losing sales because we simply can't reduce our  
10 prices any further.

11 We documented a number of specific lost-sales  
12 examples to the Commission. In both 2015 and 2016, for an  
13 example, we lost significant business to a Chinese producer  
14 for a major U.S. retailer as aggressive pricing behavior of  
15 subject imports intensified.

16 There are virtually no imports from other  
17 countries, so every U.S. sale captured by unfair imports  
18 from China and Vietnam is a lost sale to the U.S. industry.  
19 These lost sales to the unfair imports have resulted in  
20 production and sales declines and significant financial  
21 deterioration at MBI.

22 We also had to reduce our workforce by more than  
23 half between 2014 and 2016. Those worker layoffs were  
24 devastating. The ability to provide jobs and a livelihood  
25 to our workers is so very important to me and my family.

1 Much to our dismay, production declines due to surging  
2 volumes of unfair imports have caused the loss of so many  
3 jobs.

4 We also had to cancel all our investment  
5 projects and reduce R&D expense at MBI because we couldn't  
6 earn a sufficient financial return on sales due to  
7 competition from unfairly priced Chinese and Vietnamese tool  
8 chests.

9 MBI can't remain in business if it has to compete  
10 with imports that are subsidized by the Chinese Government  
11 and are sold at dumped prices that are often below our  
12 costs.

13 Our hopes that this case might save our company  
14 have been encouraged by recent market developments. After  
15 the case was filed and the preliminary affirmative decision  
16 was made, we began to regain customers and increase our tool  
17 chest orders.

18 During the summer of 2017, we regained seven  
19 skews at one customer, and two skews at another customer for  
20 shipping for this upcoming year. As a result of these and  
21 other sales, we have recently been able to hire new workers.

22 We have more than doubled our employees for  
23 production of tool chests since the case was filed. So we  
24 are very appreciative for the positive effects of the case  
25 so far, because we've been able to build up our company

1       rather than shut its doors.

2                        MBI and our workers need this trade relief to  
3       safe the U.S. tool chest operations. And absent relief, we  
4       will see our U.S. operations further diminish, resulting in  
5       permanent closure in the imminent future, and a lost of all  
6       remaining jobs at MBI.

7                        On behalf of MBI and its workers, we are asking  
8       for your help to keep our business alive. Thank you.

9                                STATEMENT OF CHRIS KRUGER

10                      MR. KRUGER: Good morning. My name is Chris  
11       Kruger and I am sales director for MBI. Prior to joining  
12       MBI I was a buyer at Home Depot from 1995 to 2006. I  
13       negotiated on behalf of Home Depot with many large  
14       suppliers, domestic and foreign, to purchase a variety of  
15       products.

16                      During my ten-plus years at Home Depot, I was  
17       involved with many line reviews, including that of retail  
18       tool chests that are the subject of this case. My  
19       experience as both a big box buyer and a seller of various  
20       products gives me a unique perspective about the retail tool  
21       chest market and competition between U.S. producers and  
22       imports for sales.

23                      Based on my first-hand experience buying for a  
24       major retailer where the primary factor in my decision  
25       making was price, the instructions to me and all other

1 retail buyers were to get the lowest price possible for the  
2 company for any product that we purchased.

3 All the major retailers operate by sourcing  
4 globally, meaning that my role as a buyer was to compare  
5 prices and products available from both U.S. and foreign  
6 manufacturers.

7 We sourced many products from Asia and China in  
8 particular to get the lowest price. In fact, virtually all  
9 of the major retailers have offices in China with personnel  
10 who solicit bids from Chinese manufacturers and others in  
11 nearby Asian countries like Vietnam.

12 Those retailers' employees in China provide  
13 information about the Asian products and pricing. They  
14 facilitate the buying process, and they are rewarded with  
15 incentives to grow the retailer's direct import business.

16 As a buyer, I would compare the FOB port price to  
17 the U.S. producer's price. Those are the prices at the same  
18 level. Generally speaking, regardless of the product we  
19 would first identify the spec, or basic features, we were  
20 looking for. Products mentioned material, color, as well as  
21 the general price range. Then we would seek out the lowest  
22 price for that product from a qualified source.

23 For tool chests and cabinets, the process is  
24 similar, with the added element of branding. The vast  
25 majority of tool chests in cabinet in the United States are



1 sold under the retailer's house brands, or private label.

2 For example, Home Depot owns Husky, Wal-Mart owns  
3 Hypertuff, Lowe's owns Cobal, et cetera. That means that  
4 each of those retailers owns the specifications for the  
5 product to be produced for that brand label.

6 The retailer will issue a specification for  
7 bidding that encompasses that brand's styles, identifying  
8 characteristics and maybe newer additional features that the  
9 retailer wants to add to its brand line. They shop that  
10 identical specification around to U.S. producers as well as  
11 Chinese and Vietnamese producers. That means that each  
12 producer bidding on the business is promising to make the  
13 same exact product to the exact brand's specifications  
14 established by the retailer.

15 When producers in China and Vietnam respond to  
16 big box retailers' tool chest solicitations with  
17 unbelievably low prices, I know exactly what is happening on  
18 the retailer's end. The buyers have to take the lowest  
19 price. Price is the only reason why MBI has lost  
20 significant business to overseas bids, and why Chinese and  
21 Vietnamese producers are now supplying the majority of  
22 products to these retailers.

23 It is also the reason why, as Mr. Liss explained,  
24 MBI was on the verge of closing its doors before this case  
25 was filed. I understand that there have been arguments made

1 by the other side in this case trying to tie U.S. producers'  
2 financial downturn to the challenges faced by Sears or the  
3 inability to get certain sizes and features here in the U.S.

4 What has happened over the past several years is  
5 not because of Sears, or lack of innovation, but because of  
6 low-priced imports from China and Vietnam. In fact, our  
7 best-selling items are the larger sizes, and in 2014 MBI won  
8 an award for innovation in tool chests.

9 First, MBI does not sell Sears. We do not supply  
10 Sears' Craftsman Brand whatsoever. The business we have  
11 lost to imports from the subject countries has been on the  
12 basis of price, and price alone.

13 That lost business and the reduced prices for our  
14 remaining sales is what led MBI to the point of financial  
15 devastation. That has nothing to do with Sears.

16 Second, my experience attempting to sell our tool  
17 chests reinforces that lower priced imports are the cause of  
18 the injury to our industry. Since this case was filed, I  
19 have been able to talk to retailers that had previously shut  
20 me out due to price.

21 Customers are now coming back to us because of  
22 this trade case. The paramount importance of price for our  
23 customers in the U.S. tool chest market is not a new  
24 phenomenon. It is a function of how retailers operate in  
25 sourcing globally to buy at the lowest price.

1           It is also a function of the interchangeable  
2 nature of these tool chests built to the retailers branded  
3 specifications. Trade relief is badly needed to correct the  
4 aggressive and unfairly low pricing that has allowed the  
5 Chinese and Vietnamese producers to dominate our market.

6           Thank you for your attention.

7                           STATEMENT OF SCOTT CALDER

8           MR. CALDER: Good morning. My name is Scott  
9 Calder. I am one of the two production managers in  
10 Waterloo's Sedalia, Missouri, facility. I have worked at  
11 Waterloo for over 35 years. I have produced retail tool  
12 chests and cabinets during my entire tenure with the  
13 company.

14           I began as an assembler, and have also worked as  
15 a production employee, supervisor, and manager at Waterloo.  
16 I am here today to tell you how important this trade case is  
17 to me, my co-workers, our families, and the community of  
18 Sedalia.

19           Let me start by trying to give you a feel for  
20 what things were like at our factory before imports hit the  
21 market. Twenty years ago we had approximately 800 people  
22 employed at Sedalia in the production of retail tool chests.  
23 We were running three shifts a day, seven days a week. Our  
24 factory was humming.

25           We produced exceptional quality tool chests and

1 cabinets day and night. Last year we were down to less than  
2 400 people and generally running one shift five days or less  
3 per week.

4           You might wonder whether that reduction in jobs  
5 was because of automation. The answer is: No. We were  
6 highly automated then and we are highly automated now. The  
7 job loss at Waterloo over the past couple of decades has not  
8 been because of increased automation; it has been because of  
9 reduced sales. Over the past three years, we have produced  
10 less than half the number of tool chests that we were  
11 producing 20 years ago. We have lost sales and jobs as  
12 imports took our customers.

13           We can get back to our prior high levels of  
14 production very quickly if the business is there. Waterloo  
15 hasn't sold any of the production lines; we just have them  
16 sitting idle much of the day now. Good workers lost their  
17 jobs or had their shifts and paychecks cut back as customers  
18 shifted sales to the cheap imports over the years.

19           The process has been going on for quite awhile,  
20 but now it has gotten worse in the past few years. The loss  
21 of a good job is tough in a town of 21,000 people like  
22 Sedalia. There are not a lot of other opportunities in  
23 Sedalia for good-paying jobs. The loss of your job hits  
24 hard, especially when you are trying to support a family.  
25 It is pretty tough on the whole family, and on the

1 community, when a good company and employer like Waterloo  
2 has to cut back on jobs and shifts. I don't know about  
3 trade laws, but I do know about our product. We make the  
4 best tool chests and cabinets you can buy. Our quality is  
5 excellent. Our workers are committed and superb.

6 As I think you know, we supply the Craftsman  
7 Brand, probably the best brand out there. So if anyone  
8 tells you they aren't buying our product because it's not  
9 good quality, that's false. I will put our Waterloo product  
10 up against any of the imports from China or Vietnam any day  
11 on a quality basis.

12 I can also tell you that once this case was filed  
13 those customers that were buying imports to get the cheap  
14 prices started to come back to Waterloo. We are now  
15 increasing the permanent workforce for the first time in  
16 year. We are ramping up some lines that hadn't been used  
17 for a long time, and we are adding another shift.

18 We have plenty of idle equipment to build  
19 additional tool chests, if more business comes back. I know  
20 people in Sedalia who would jump at the chance to get hired  
21 at Waterloo if we had enough business to hire more workers.  
22 But if we lose this case and the imports ramp up again, it  
23 won't be long before layoffs start again and all of our jobs  
24 are back in jeopardy.

25 You have the power to keep that from happening.

1 Please help me, my co-workers, our families, and my  
2 community keep jobs and continue to add new ones building a  
3 great product in Sedalia. Thank you.

4 MS. CANNON: For the record I am Kathleen Cannon  
5 and I will conclude our presentation by summarizing the main  
6 arguments on behalf of the Domestic Industry.

7 First, the domestic like-product. The  
8 like-product should be defined to mirror the scope of the  
9 investigation and consists of certain tool chests and  
10 cabinets for retail sale. The product should not be  
11 expanded to include industrial tool chests as Respondents  
12 have argued.

13 Before I address the six like-product factors,  
14 let me start by emphasizing the legal standard here as you  
15 see on public slide 10. The arguments Respondents present  
16 in their brief, and the allegedly differentiating factors  
17 the importers and the purchasers cite in their questionnaire  
18 responses, are based largely on production and sales of the  
19 foreign product.

20 I am sure we will hear those same arguments later  
21 this afternoon. As the Commission has recognized in  
22 Aluminum Foil and many other cases, though, the domestic  
23 like-product analysis must focus on similarities and  
24 differences between domestically produced product. So most  
25 of their arguments are misplaced.

1           When you analyze the six like-product factors  
2 based on the domestic product, you see significant  
3 differences with respect to each of these factors as you see  
4 on slide 11.

5           Mr. Nictakis described these factors as they  
6 apply to the subject products sold at retail, while Mr.  
7 Stremmel discussed the industrial product. As you heard,  
8 these are very different products physically and are  
9 designed for different users--one for do-it-yourselfers, and  
10 one for professionals. They are sold through entirely  
11 different distribution channels--one at retail, and one  
12 through independent operators--at extremely different price  
13 points.

14           As your staff observed during their tour of  
15 Waterloo's Sedalia facility, the manufacturing processes and  
16 equipment are very different, as are the domestic producers.

17           Respondents' arguments on like-product are a  
18 transparent effort to dilute the injury data here by  
19 sweeping in U.S. companies that are not competing with or  
20 affected by the subject imports. Accepting their arguments  
21 under these facts would be directly at odds with the  
22 legislative directive not to define the like-product in such  
23 a way as to deny relief to an industry that has been  
24 adversely affected by unfairly traded imports.

25           If you would, turn now to your confidential pink

1       handout that I hope each of you have, I will review the key  
2       facts of record that demonstrate that each of the statutory  
3       factors is met.

4               On volume, subject imports are unquestionably  
5       significant. As you see on Chart 2, imports from China and  
6       Vietnam account for virtually all of the imports in the U.S.  
7       market.

8               As Chart 3 shows, these imports also increased in  
9       volume significantly over the period. And that increase  
10      occurred despite a decline in apparent consumption.

11              As shown in Chart 4, even at the beginning of the  
12      Period of Investigation in 2014, subject imports had a large  
13      share of the U.S. market. These imports had already driven  
14      out two other U.S. producers and had forced Waterloo to  
15      close three U.S. production facilities. The injury imports  
16      caused during the period was a continuation of a long  
17      battering they have inflicted on this industry.

18              Chart 5 shows that by 2016 the subject import  
19      market shares had increased even further. And as the share  
20      of the market that China and Vietnam captured grew, the  
21      domestic industry's share fell directly displaced by these  
22      imports.

23              The reason subject imports were able to make such  
24      inroads at the major big box retailers and other purchasers  
25      of the subject tool chests is price. I will provide more



1       specifics shortly on the price-based nature of these sales,  
2       but it's look first at the pricing data from the prehearing  
3       report.

4               As you see on Chart 6, direct imports comprise  
5       the vast majority of sales of imports and of the pricing  
6       data you have received. The big box retailers directly  
7       import most tool chests, so that is the primary point of  
8       price competition for domestic producers.

9               Respondents would have you ignore these direct  
10       import prices and focus on the very small percentage of  
11       sales to unrelated purchasers. But the Commission has  
12       recognized in Sugar and in other cases, that it should look  
13       at direct import prices where those prices account for the  
14       bulk of the import sales. That is definitely the case here.

15              As we explained further in our brief, that point  
16       of competition does yield equivalent price comparisons  
17       between FOB US Port and FOB US Plant prices.

18              Chart 7 shows the results of these price  
19       comparisons. Subject imports undercut U.S. prices on the  
20       vast majority of sales on a quarterly basis, as well as the  
21       majority of sales on a volume basis.

22              Further, the margins of underselling on those  
23       sales are sizeable. This confidential chart is a very  
24       important chart as it portrays quite a different picture of  
25       the market than Respondents would have you believe.

1           As Mr. Sallee testified, Waterloo had to cut its  
2 prices repeatedly to try to compete with these lower import  
3 prices, but it still lost sales to subject imports.

4           As shown in Chart 8, these low import prices were  
5 confirmed by the purchasers themselves. When asked whether  
6 they purchased subject imports instead of the U.S. product,  
7 not only did many customers answer "yes"; most of those  
8 reported that subject imports were lower priced. And they  
9 identified a huge volume of purchasers that were shifted to  
10 the lower priced imports instead of the U.S. product over  
11 the period.

12           Respondents have argued that the purchasers did  
13 not buy the imports because of the lower prices, but the  
14 retailers own statements, as I will discuss shortly, show  
15 that Respondents are wrong.

16           The results of these surging volumes of  
17 low-priced imports were devastating to the U.S. industry.  
18 As Chart 9 shows, production, shipments, and employment all  
19 plunged over the period.

20           Capacity utilization fell to an appallingly low  
21 rate. Remember this low capacity utilization figure if you  
22 hear arguments by the Respondents that the industry didn't  
23 have the capacity to supply them. We had more than enough.

24           As your staff saw and heard during the plant  
25 tour, Waterloo has ample ability to ramp up production, put

1 idle lines to use, hire more workers, and add additional  
2 shifts, if it can get more sales.

3 The industry's financial condition also plunged  
4 as the low-priced imports surged, as you see in Chart 10.  
5 The percentage declines in operating and net income were  
6 massive.

7 Chart 11 sets forth the industry's operating  
8 profit-to-sales ratios over the Period of Investigation.  
9 The profit ratio was already relatively low in 2014, and  
10 fell even further in 2016 as the subject imports surged.

11 Chart 12 provides some details on the significant  
12 financial difficulties that these low profits engendered,  
13 including postponed or cancelled investments. As Mr. Liss  
14 testified, MBI was planning to shut down its facility  
15 entirely right before this case was filed due to declines it  
16 had suffered at the hands of the imports.

17 The causal nexus between subject imports and the  
18 U.S. industry's condition is strong. As shown in Chart 13,  
19 there is a classic X: As subject imports gained sizeable  
20 market share, the domestic industry lost sizeable market  
21 share almost on a one-for-one correlation.

22 Nonsubject imports were a very small and  
23 declining presence in the U.S. market over the period, as  
24 depicted in Chart 14, so all of the market share loss by the  
25 domestic industry over the period was directly due to the

1 increasing subject imports.

2 Only after this case was filed did the import  
3 market share surges abate, as page 15 demonstrates.

4 Once that happened, the domestic industry's  
5 market share began to recover, and domestic profits also  
6 turned up a bit, although they still remain at a very low  
7 level. It is notable that subject imports were not  
8 responding to a demand growth over the period.

9 As shown in Chart 16, subject imports were  
10 surging even while demand was declining. As a result, the  
11 domestic industry's shipments and production fell to a far  
12 greater degree than the drop in apparent consumption. Nor  
13 will the industry's condition improve absent relief.  
14 Foreign producer data in Chart 17 show that their capacity  
15 to produce the subject product is sizeable and increased  
16 significantly from 2014 to 2016, with further increases  
17 projected both this year and next.

18 Much of that capacity is sitting idle, as you  
19 see in Chart 18, more than enough to gobble up the rest of  
20 the U.S. market. Chart 19 shows that Chinese and Vietnamese  
21 producers export most of their production, almost all of  
22 their production with the U.S. market, the major target of  
23 those exports. There's little doubt that the Chinese and  
24 Vietnamese producers have set their sights on displacing  
25 Waterloo and MBI.

1                   The injury the U.S. industry has already  
2 suffered will get even worse absent relief, with at least  
3 one if not both U.S. producers shutting down. By contrast,  
4 relief means expanding production, adding workers and  
5 selling to new customers, as has already started to occur  
6 after the trade case was filed.

7                   So how do Respondents rebut this compelling  
8 evidence of the injury subject imports have caused. They  
9 make two principle arguments. First, they argue that the  
10 industry's decline is due to serious decline as a company,  
11 and second they argue that the increasing import market  
12 penetration is due to quality and innovative they offer and  
13 has nothing to do with price.

14                   With respect to Sears, look first at the data  
15 on Chart 20. While Sears has had financial difficulty for  
16 many years and they cite declines going back for decades,  
17 over the 2015-2016 period, when Sears saw the significant  
18 decrease in tool chest purchases, Sears closed less than  
19 five percent of its stores and its overall revenues declined  
20 by less than ten percent.

21                   Those firm-wide declines do not explain the  
22 significant decrease in Sears' purchases of tool chests in  
23 that period. Those declines have to be due to something  
24 else. Over the period Sears primarily bought tool chests  
25 from Waterloo. Waterloo's prices, as the prehearing report

1 shows, are significantly higher than those of subject  
2 imports. That means Sears itself was struggling to compete  
3 with other retailers that were buying subject imports at  
4 lower price points, and who were either selling product at  
5 retail at lower prices than Sears or earning higher profits  
6 on the imports they were selling or both.

7 Home Depot cites its growing import purchases  
8 while Sears' purchases declined, but ignores the role that  
9 its decision to source low priced subject imports played in  
10 that growth. It is not true that the drop in Sears'  
11 purchases of tool chests is simply a function of Sears'  
12 decline as a company. That drop is also a direct function  
13 at the lower prices at which other retailers were sourcing  
14 subject imports, while Sears was buying higher priced  
15 domestic product largely.

16 And it explains why Sears too began to source  
17 subject imports and to use lower subject import prices to  
18 leverage down Waterloo's prices in negotiations during the  
19 Period of Investigation. It is also not true that the  
20 domestic industry only sells to Sears. MBI does not sell to  
21 Sears at all, yet its trade and financial condition  
22 plummeted over the period.

23 Waterloo has also sold and actively attempted  
24 to sell to other retailers over the period. Look at Chart  
25 21, that lists the U.S. customers to whom Waterloo has sold

1 or attempted to sell tool chests over the period, quite a  
2 few. In the past, Waterloo sold to almost every one of  
3 those customers on that chart, but it has lost those  
4 accounts over the years to lower-priced imports. Waterloo  
5 now sells mainly to Sears because other purchasers instead  
6 buy the lower-priced imports.

7 But Waterloo has not given up on trying to  
8 sell these other customers. We'll supply more details in  
9 our post-hearing brief of those specifics, which include  
10 detailed presentations by Waterloo to multiple customers and  
11 not simply off the cuff conversations. There's no agreement  
12 or limitation on Waterloo selling only to Sears. Waterloo  
13 in fact has expended significant efforts to sell to other  
14 purchasers. It also has ample idle capacity to do that.

15 And as Mr. Sallee testified, Waterloo did sell  
16 to most retailers before 2014, but lost those accounts over  
17 the years to the low priced imports. The Respondents'  
18 second argument is that the reason Waterloo is not obtaining  
19 sales is not due to price but instead to a poor quality  
20 product and a failure to innovate. But let's look at some  
21 of the specific comments from the purchasers outside of the  
22 context of this case.

23 Confidential Charts 22 to 28 in your packet  
24 contain direct quotes or comments by the retailers as to the  
25 importance of price in purchasing decisions. Please review

1 these charts carefully, as they contain quotes from the  
2 retailers themselves in the context of day to day  
3 discussions with the U.S. producers about sales of tool  
4 chests.

5 See how often price is mentioned, with a focus  
6 on the need to be more aggressive on price, to give the  
7 retailer your best offer, complains that the U.S. is too  
8 high or not competitive or wasn't even close to the import  
9 price. The retailers can even be very explicit about what  
10 the price needs to be for the U.S. producer to get the sale,  
11 as you see on Slide 26.

12 Slide 28 is particularly telling about a U.S.  
13 producer not providing sufficiently aggressive prices, which  
14 is what that retailer needs from the U.S. producer to be  
15 price competitive with another retailer whose brand he  
16 names. It is also hard to give credence to Respondents'  
17 claims of challenges to the quality of Waterloo's product or  
18 its lack of innovation.

19 As Public Slide 12 shows, Waterloo is a  
20 supplier of tool chests sold under the Craftsman brand name,  
21 which is well-recognized for its high quality and innovative  
22 features. Waterloo's tool chests have also been sold under  
23 the Hypertough brand and the Cobalt brand during the Period  
24 of Investigation, also quality brands and products.  
25 Notably, Waterloo was awarded a vendor of the year award for



1 innovation by Lowe's in 2017.

2 Those facts do not support Respondent's claims  
3 that Waterloo is not supplying a quality or innovative  
4 product. This case, like most cases involving imports from  
5 China and Vietnam, is about incredibly low-priced sales by  
6 subject imports. If the subject imports were truly higher  
7 quality and with better innovations as they claim, they  
8 should command a premium price rather than underselling the  
9 U.S. producer.

10 When the retailers talk about innovation, what  
11 they mean is innovative features at a low price. Retailers  
12 have taken Waterloo's innovations and designs and have them  
13 produced in China so they can get a better price. Chinese  
14 and Vietnamese producers add any features that they don't  
15 charge for to obtain a sale. Waterloo can add those same  
16 features, but they come at a cost that retailers won't pay,  
17 as Mr. Sallee testified.

18 Let me close with this last slide, Public  
19 Slide 13, reinforcing the importance of price. Here are a  
20 few quotes emphasizing some of the points I have made, that  
21 the subject imports sell for rock bottom prices and at  
22 massive volumes. The competition with low-priced subject  
23 imports has resulted in loss of sales to numerous accounts  
24 and limited to sales to a major U.S. customer, and that if  
25 the subject foreign producers can incorporate innovations,

1 sales will always be lost to subject imports due to price.

2 You might think Waterloo wrote this. In fact,  
3 these are quotes from the Vietnamese producer Clearwater,  
4 acknowledging exactly the price-based competition we have  
5 described to you today. Thank you. That concludes our  
6 testimony, and we would be happy to answer your questions.

7 CHAIRMAN SCHMIDTLEIN: All right. Thank you  
8 very much. I'd like thank all the witnesses for being here  
9 today. Unfortunately, I was not able to attend the field  
10 visit to Waterloo in Sedalia. I have been to Sedalia,  
11 Missouri in my youth, given that I'm from a different part  
12 of rural Missouri where I was this past weekend. But yes, I  
13 regret that I wasn't able to attend that field visit to see  
14 your facility in person. I appreciate the photographs.

15 We will begin the Commissioner questioning  
16 this afternoon, this morning actually with Vice Chairman  
17 Johanson.

18 VICE CHAIRMAN JOHANSON: Thank you Chairman  
19 Schmidtlein, and I would like to thank all of you for  
20 appearing here today. I have not been to Sedalia, but I  
21 have a roommate or I had a roommate in college who grew up  
22 in Warsaw, Missouri, which is right down the road and he  
23 said that Sedalia was the city he went to when he needed  
24 anything. It was the closest city around.

25 So I've heard all about that area and about

1 the lakes in the area. He used to tell me all about them,  
2 and I'm going to begin my questioning with a question  
3 directly suited for Waterloo as MBI does not produce  
4 industry tool chests, this question is for Waterloo.

5 On page ten of your prehearing brief, you note  
6 that "Waterloo produces a small volume of industrial tool  
7 chests in a dedicated area of its plant using different  
8 equipment, process and personnel." Can you please describe  
9 the relative share of your production facility that is  
10 devoted to production of industrial tool chests and  
11 cabinets?

12 MR. NICTAKIS: Yeah. We have about ten  
13 percent of our floor space would be committed against  
14 industrial, and it's about five percent, a little under five  
15 percent of our shipments of our sales, and that's why that's  
16 being moved out to the Ohio facility.

17 VICE CHAIRMAN JOHANSON: Thank you Mr.  
18 Nictakis. Okay. Can equipment in this area currently be  
19 used to produce in scope tool chests and cabinets, or can it  
20 be converted to produce in-scope products?

21 MR. NICTAKIS: I think what we'll do is that  
22 equipment will be moved up to the Ohio facility. Either the  
23 in-scope is really more automated. This is manual. So  
24 there's really not much use for us with that equipment. So  
25 that will end up getting, you know, whatever's good enough

1 is going to get shipped up to Ohio.

2 VICE CHAIRMAN JOHANSON: Okay. So once again,  
3 the out of scope is more manual?

4 MR. NICTAKIS: Oh absolutely.

5 VICE CHAIRMAN JOHANSON: Okay. Thank you on  
6 that, and continuing on that same vein of thought, could you  
7 please characterize the difference in labor involved in  
8 producing industrial tool chests?

9 MR. NICTAKIS: Well, we make about five units  
10 per hour on industrial, and there will be 26-27 people  
11 assembling, for example. We make over 100 units per hour on  
12 our core retail in-scope product with about 22 people.

13 VICE CHAIRMAN JOHANSON: I'm sorry. How many  
14 industrial per hour again?

15 MR. NICTAKIS: We make five.

16 VICE CHAIRMAN JOHANSON: Okay.

17 MR. NICTAKIS: Versus 100. So it is a  
18 dramatic different, dramatically higher labor content. But  
19 those products sell for ten times more money too, so --

20 VICE CHAIRMAN JOHANSON: And so once again  
21 it's more skilled labor in producing industrial, since it's  
22 more manual; is that correct?

23 MR. NICTAKIS: Absolutely. There's extra  
24 training. They're dedicated workers. They actually get  
25 paid about a \$3 an hour, 2.50 to \$3.00 an hour premium

1 versus the regular in-scope retail workers.

2 VICE CHAIRMAN JOHANSON: Okay. Thanks for  
3 your response, and at page -- yes.

4 MR. CALDER: Again, it's Scott Calder. I'd  
5 like to add to what Mr. Nictakis said. I run the retail  
6 side of the business. We have drawer lines where I have two  
7 employees making 500 drawers an hour. The cabinet line runs  
8 180 an hour with three employees. The other half of the  
9 plant, which the other production manager takes care of,  
10 they're making drawers with four people at 22 an hour.  
11 They're making cabinets with ten people at five an hour, six  
12 an hour. It's a completely different labor content and  
13 amount of people that are going to make product.

14 VICE CHAIRMAN JOHANSON: And why is there a  
15 different labor content here? I would assume with the trend  
16 of manufacturing going towards more automated, more  
17 automated features that you would be at least trending in  
18 the area of using more automation?

19 MR. STREMMEL: My name is Jason Stremmel, and  
20 I can speak as an expert in industrial with Stanley Black  
21 and Decker. We have three industrial plants. Because  
22 industrial is very customized, its well locations are  
23 different, the bins are different in manufacturing.

24 So in a retail environment, when the box is  
25 identical and the same coming down the line in a repetitive

1 motion, you don't need the expertise of -- it's almost an  
2 engineering type knowledge you need to have in industrial to  
3 be able to make these boxes. So it is definitely a  
4 different skill set between the two.

5 VICE CHAIRMAN JOHANSON: Do you see a trend  
6 towards more automation though?

7 MR. STREMMEL: We certainly try to automate  
8 where we can. But because it's customized and we're working  
9 with the customers and, you know, to their specifications  
10 and what they need, there's not a lot of automation that's  
11 available because you're making, you know. Our minimum  
12 order quantity for a customer is one, right. A minimum  
13 order quantity for a retail box is in the thousands. So the  
14 justification for automation is not there in that case.

15 VICE CHAIRMAN JOHANSON: Thanks, Mr. Stremmel.  
16 And at page 13 of Waterloo's prehearing brief, you all state  
17 that "Industrial grade tool chests produced in the United  
18 States are generally produced to custom specifications for  
19 particular end uses." Can you all please clarify what you  
20 mean by "generally"?

21 MR. NICTAKIS: I guess I'll take that Jason,  
22 and you can add on. This is Bill Nictakis. Going through  
23 it, I think repeat that question? I'm sorry about that.

24 VICE CHAIRMAN JOHANSON: Yes. You all state  
25 at page 13 of your brief that industrial tool chests

1 produced in the United States are generally produced to  
2 custom specifications for particular end uses. Could you  
3 please clarify what you mean by "generally" in that  
4 sentence?

5 MR. NICTAKIS: 98 percent of the time they're  
6 customized, you know. Sometimes we'll make ten units and  
7 hope somebody orders them because they've ordered them in  
8 the past, a Cornwell industrial user or something. But they  
9 are made to order, never make to inventory so probably  
10 should have said "always," but it's a 98 percent of the time  
11 kind of thing.

12 VICE CHAIRMAN JOHANSON: Okay. Mr. Stremmel.

13 MR. STREMMEL: Yeah. I can support that.  
14 It's hard -- you say 100 percent, it's -- there's hard and  
15 fast. There's always exceptions to the rules. But we are  
16 made to order, industrial is a made to order business, so  
17 you're making to that specification.

18 VICE CHAIRMAN JOHANSON: Okay, and do  
19 industrial customers usually order custom-made tool chests,  
20 and can you tell me about what percentage of industrial tool  
21 chests are sold on a custom order basis?

22 MR. STREMMEL: Pretty much everything.

23 VICE CHAIRMAN JOHANSON: Okay. So once again,  
24 around 98 percent or 100 percent? I shouldn't throw numbers  
25 out there, but that's what number you all gave before I

1 believe.

2 MR. STREMMEL: Yeah. It's very high.

3 VICE CHAIRMAN JOHANSON: Okay, thanks. And  
4 what are some specific needs requested by industrial users  
5 that differentiate their orders from Mass produced retail  
6 tool chests and cabinets?

7 MR. STREMMEL: Again, Jason Stremmel. They're  
8 looking for size, number of drawers, the load weight on the  
9 drawers, the castors, the color, anything that you can --  
10 you have on a tool box we can make specific to their needs.  
11 Size, dimensions, where it's going to fit in a, you know, a  
12 garage or an industrial setting, the mechanic's footprint  
13 that they need. So it's pretty much endless in terms of the  
14 customization that we can do.

15 VICE CHAIRMAN JOHANSON: Thanks, Mr. Stremmel.  
16 And I was struck by a footnote in Sears' prehearing brief,  
17 and this footnote is at page eight. It's footnote 29, and  
18 in that footnote they state that it appears that only a  
19 small fraction, about ten percent of Craftsman-branded  
20 products are sold outside of Sears.

21 If the remaining 90 percent of Craftsman  
22 products are sold at Sears, how do you respond to the  
23 argument that Waterloo's dependence on Sears, coupled with  
24 Sears' failing financial performance, is not a cause of  
25 Waterloo's problems?



1                   MR. NICTAKIS: This is Bill Nictakis. I think  
2 the issues for Sears' Craftsman tool storage business are  
3 directly related to the low price imports that have been  
4 flooding the market from China and Vietnam. Sears competes  
5 against the big box retailers. Companies like Home Depot  
6 are getting rock bottom prices. They're running ads every  
7 day at every day pricing at lower and lower prices, causing  
8 that price gap to widen versus Sears impacting the volume  
9 that Sears has.

10                   As a result, Sears puts the gun to our head  
11 and says you need to reduce your prices or we're taking our  
12 business and we're going to go over to China and Vietnam and  
13 source it there. We reduce our prices and there goes our  
14 profitability. So I think if you look at the Sears  
15 challenge, hey it's been because of low price imports from  
16 China and Vietnam.

17                   At the same time, our top priority has been  
18 drive new business, go out and sell to new accounts. We  
19 have great quality product, we have a low cost  
20 manufacturing, highly automated facility. Let's leverage  
21 that, and we have had minimal success up until recently with  
22 our efforts.

23                   I'm a pretty good salesperson, and I have been  
24 rebuffed time and time again because we're too expensive,  
25 and that's me personally going to accounts like the COSTCOs

1 of the world, the Lowes of the world, the Walmarts of the  
2 world, the Home Depots of the world and being told you're  
3 too expensive.

4                   CAN Commissioner Johanson, Kathy Cannon. I  
5 want to also refer you back to Confidential Chart 20 in our  
6 packet, because I think that gives some very helpful numbers  
7 on what was going on with Sears as a company versus in this  
8 particular space, and their declines in this particular  
9 space are reflective of the market dynamics that Mr.  
10 Nictakis described, where they are being forced to compete  
11 with all the other retailers that are buying the low priced  
12 imports from China, and that's really been a problem for  
13 them as well.

14                   So it's a problem for Waterloo selling to them  
15 and it's a problem for them. But equally importantly is the  
16 other chart that we've included with customers, that  
17 Waterloo has sold or tried to sell to. Waterloo is not  
18 limited to selling to Sears, nor are they only trying to  
19 sell to Sears. They do sell to others. They just can only  
20 sell so much volume given the price problems.

21                   VICE CHAIRMAN JOHANSON: Thanks Ms. Cannon and  
22 Mr. Nictakis. But then again, I looked at your chart or  
23 that page, the confidential page. Then again if your major  
24 -- if Sears is where you do most of your sales and if Sears  
25 is clearly ailing and shutting down stores, I would think

1 that would impact you in a fairly significant way.

2 MR. NICTAKIS: Yeah. I think might it impact  
3 it? Sure, right. But if I really look at what's going on  
4 with our Sears business in tool storage, it's important to  
5 recognize their tool storage trends are much different, you  
6 know, apparel is down in the tens or twenties and all of  
7 that. Their tool storage business has been decimated by  
8 low-priced offerings from China and Vietnam that are being  
9 sold to their big boxes.

10 They're Big Box competitors and we have had to  
11 reduce our prices to match that, so you know I can tell you  
12 that.

13 The other thing I'd like to address, if I could,  
14 is some of the claims in the briefs that we aren't trying to  
15 go south on people. Our number one priority was we're going  
16 to go -- when we bought this company -- even before we  
17 bought this company, talking to retailers about, hey, how do  
18 we go get new business, right? We're going to diversify our  
19 sales mix, leverage our capabilities, our innovation, our  
20 quality. Let's go sell to new customers.

21 We have a really good sales team. Matt's really  
22 good at what he does. I like to go out and call on  
23 customers and I personally accompany them and time and time  
24 again the answer was the same. It was you're too expensive.  
25 I can get it cheaper in China and Vietnam. You need to take

1 your price down. Don't even bother bidding. You're not  
2 even close. It's not worth your time.

3 So I'm aggressive. We're aggressive. We  
4 understood, hey, we needed to leverage this capacity --  
5 we're running at 50 percent capacity, right? I mean, geez,  
6 we had these assets. We're ready to go. People had to  
7 layoff in the past, knocking on the doors, wanting to get  
8 back into our company.

9 We tried like heck to sell new business and we  
10 started to see some success and especially recently people  
11 are starting to respond to the knocks on the door, which has  
12 been great for our company.

13 VICE CHAIRMAN JOHANSON: Alright, thank you, Mr.  
14 Nictakis. My time is long expired, but I appreciate your  
15 responses.

16 CHAIRMAN SCHMIDTLEIN: Commissioner Williamson.

17 COMMISSIONER WILLIAMSON: Thank you. And I also  
18 want to thank all the witnesses for coming in. I guess as  
19 somebody who grew up in St. Louis I must confess I've never  
20 been to that part but maybe one of these days I'll get  
21 there.

22 But first, just to clear up something, which  
23 slide it is. This talks about dedicated hard tooling and  
24 what does it mean "hard tooling"?

25 MR. NICTAKIS: We have presses that punch out

1 certain parts of certain dimensions and you have a die that  
2 you put in the press that'll make that specific formed part.

3 COMMISSIONER WILLIAMSON: Okay.

4 MR. NICTAKIS: And if you have enough volume in  
5 retail business you're running thousands of units in a  
6 month, you could invest the 30 to \$50,000 it might take to  
7 buy that die hard tool it and really get efficient;  
8 otherwise, you go into a much manual process like Mr.  
9 Stremmel referred to in his industrial plants.

10 COMMISSIONER WILLIAMSON: Good, okay, thanks. I  
11 just want to clarify that.

12 What was the reason for choosing 60 inches as  
13 the maximum for the scope and why not some other width?

14 MR. NICTAKIS: We looked at the marketplace,  
15 what our sales were, how they were moving and that was the  
16 logical place to say for a do-it-yourselfer in your garage  
17 to fit your two cars that's as big as you're going to get in  
18 the majority of instances and we had to draw a line  
19 somewhere. And looking at where the market was, which was  
20 certainly below, that's what we choose.

21 MS. CANNON: Let me just supplement that too by  
22 saying we also were focused, Commissioner Williamson, on  
23 domestic production. This goes back to the point I was  
24 making. We defined the scope based on what Waterloo and MBI  
25 make and what they compete with for the subject imports.

1 Some of the larger tool chests that the Respondents want to  
2 talk about that aren't in the scope and therefore aren't  
3 subject to duties are not part of what we've even targeted  
4 by this trade action, so I'm a little mystified as to why  
5 they want to, you know, contest what we defined the scope to  
6 be.

7 We try very hard when we work with industries to  
8 make sure that the scope of the case is discreet enough to  
9 target what they're being affected by, but not overly broad  
10 to sweep in things that they are not competing directly  
11 with. They're not making those types of products and that's  
12 where the line is drawn, around U.S. production and U.S.  
13 competition.

14 COMMISSIONER WILLIAMSON: Okay. This is  
15 personal. Living here in Brownstone in New York I can't  
16 even get a 24-inch portable tool case down to the cellar and  
17 so I'm trying to figure out where these are used and I take  
18 it you're talking about basically suburban homes and places  
19 that are large enough where people can have a two-car  
20 garage, plus space.

21 MR. NICTAKIS: Yes, that's typically where  
22 you're going to see them is in the garage, maybe in the  
23 basement. One of our partners lives in Brooklyn and has a  
24 brownstone and he's got the little 26-inch, small one that  
25 he can take out, but they are more garage/basement.

1                   COMMISSIONER WILLIAMSON: Okay. And has the  
2 demand for the larger ones grown -- excuse me. Sorry, go  
3 ahead.

4                   MR. ROSENTHAL: Mr. Sallee wanted to add to  
5 that.

6                   COMMISSIONER WILLIAMSON: Sure, go ahead.

7                   MR. ROSENTHAL: Alright.

8                   MR. SALLEE: I was just going to add to what  
9 Bill mentioned there, that we build our products around what  
10 the domestic industry -- I mean the sizes that the consumer  
11 wants. And one of the limiting factors when you start  
12 talking about getting too big for that mass market or for  
13 that volume user is just like you mentioned. Everyone has  
14 space constraints and if you make a product too deep or too  
15 wide where are they going to put it and are they still going  
16 to be able to park their car in their garage if they put it  
17 in the garage. So that's a very important thing when we  
18 consider what sizes we're going to make the product.

19                   MR. ROSENTHAL: Commissioner Williamson, I just  
20 want to clarify in response to your answer, also the answer  
21 Mr. Stremmel gave before when he was talking about garages  
22 for industrial products, he met when you go to a car repair  
23 place and that kind of garage as opposed to the home garage  
24 that is being talked about here.

25                   I don't know about your garage, but mine will

1 list to one side if one of those big things was put in it.

2 COMMISSIONER WILLIAMSON: Okay. New York City  
3 you don't even have garages, unless they are multi. Good,  
4 okay. I noted that when he said "garage" that it was a  
5 different type one.

6 Some large purchasers reported that brands were  
7 a very important factor in purchasing decisions while other  
8 reported they were not important. What explains this  
9 dichotomy and under what circumstances are brands important  
10 and under what circumstances are they not?

11 MR. NICTAKIS: This is a marketplace that the  
12 retailers own their own brands, so Lowe's has the Colbart  
13 (ph) brand. Home Depot has its Husky brand and Milwaukee  
14 brands. Sears has had its Craftsman brand. So this is a  
15 category where the retailers own the brands and they lead  
16 and direct the products that are being put into the stores  
17 underneath those brands. So there is no national brand kind  
18 of sees as retailers own brands they sell in their stores.

19 COMMISSIONER WILLIAMSON: Okay. Are there  
20 circumstances where brands aren't important?

21 MR. NICTAKIS: Where they are important?

22 COMMISSIONER WILLIAMSON: Where they are not  
23 important.

24 MR. NICTAKIS: Well, I think the Big Box people  
25 would take offense if we said Colbart wasn't important to



1       Lowe's or Husky wasn't important. I think the products  
2       themselves are pretty fungible. They're all -- you know we  
3       talk about innovation and things like that, but it's a power  
4       strip or it's a clamp shell lid and things are -- you know  
5       they're not self-driving cars and it's the retailer's brands  
6       that they're trying to sell their portfolio tool storage and  
7       tools, so Husky at Home Depot or Colbart at Lowe's or  
8       Craftsman at Sears and things like that.

9                   MS. CANNON: Let me just supplement. I think  
10       the critical thing here is that the retailers are the ones  
11       that are owns or licensing these brands. These producers --  
12       the U.S. producers and the Chinese producers or Vietnamese  
13       producers don't own the brand, so branding is not a  
14       marketing tool for them. It is only a marketing tool to the  
15       consumers. You and I that walk into a Lowe's or Home Depot,  
16       whatever, that might say, oh, I'd like to buy this  
17       particular brand if that appeals to us and that's really  
18       where the question of how does the marketing affect the  
19       sales happens, not at the end of who you're going to pick  
20       from to buy your tool chest to be sold under that brand.

21                   COMMISSIONER WILLIAMSON: Okay. And what I was  
22       thinking about I guess the volume of sales that independent  
23       hardware stores or say something like Dollars they don't  
24       sell a lot of these things, I assume, so that's why people  
25       who -- so I'm saying retailers who wouldn't are about the

1 brand aren't selling these types of products; is that true?

2 MR. NICTAKIS: The majority of the sales are  
3 going through the Big Box. You know you do the crafts --  
4 Ace Hardware has an arrangement with Craftsman, for example,  
5 so you can get an Ace -- you know an Ace or a Craftsman box  
6 at Ace, and there's things like that that go on. You know  
7 Wal-Mart has a license with Stanley and stuff, but the  
8 majority of the sales are going through the Big Box  
9 retailers with their own brands.

10 COMMISSIONER WILLIAMSON: Okay, thank you. How  
11 do you respond to the Respondents' assertions about your  
12 inability to provide purchasers requirements with respect to  
13 such factors as innovation, quality, and product  
14 differentiation? I know you've already talked a lot about  
15 your innovation and quality.

16 MR. NICTAKIS: I think it's just flat wrong. I  
17 mean if you look at our product quality we will put our  
18 product up against anybody's any time any where period. I  
19 mean I'm not going to disparage anybody. We're very good or  
20 at the higher end of quality. I have never, ever gone into  
21 a trade call and been told that my quality is not good  
22 enough, ever. It's been I'm too expensive compared to what  
23 they can get, so that I just totally take off the table.

24 Innovation I also take off the table. Power  
25 strips, soft glow slides, open tail lids, power tool

1 holders, not rocket science innovation. Not self-driving  
2 cars, but that's sort of what the industry's doing and we're  
3 in the midst of that, along with others and you know Lowe's  
4 a pretty big retailer. They're pretty reputable and they  
5 gave us an award as being one of the top innovators in their  
6 entire store. You know that sort of says something. In  
7 fact, that Craftsman has done business with us for all these  
8 years, the fact that we've done business in the past with  
9 Home Depot and done a lot a business.

10           You know we lost that business, not because of  
11 innovation. We lost it because of price and that's been our  
12 struggle. It has never been about quality. It's been, hey,  
13 you can't make it cheap enough.

14           MR. SALLEE: I will add to that a little bit in  
15 that we're not told by retailers that we don't have the  
16 right quality and we continually bring innovation. In fact,  
17 you can look at the list here of different innovations in  
18 the market and I would argue that Waterloo is behind many of  
19 those where we were pushing those. I think that's one thing  
20 with Waterloo being in the market so long we're trusted by  
21 retailers and also as a supplier of the Craftsman brand  
22 we've brought innovations to the market that others have  
23 certainly followed; things like power, the clam shell  
24 covers. We had the clam shell covers on boxes in 1995.

25           And the other thing that I'll point out here is

1 I would argue that size is not innovation. Just because  
2 we've seen the market come in and sell a larger unit at the  
3 same -- if we make a 26-inch wide unit, for example, and  
4 they come in and sell a 40-inch at the same price that's  
5 price. That's not innovation.

6 MR. ROSENTHAL: One more fact, it's not uncommon  
7 for Waterloo or MBI to work with a retailer, maybe get the  
8 initial sale of an innovative new product and then after  
9 that initial sale is done to have the retailer go and price  
10 that over in China and Vietnam and from that point on take  
11 those innovations and have them produced elsewhere by the  
12 subject countries at a lower price. That's not an uncommon  
13 phenomenon at all.

14 COMMISSIONER WILLIAMSON: Okay. My time has  
15 expired, but just a quick question. Does intellectual  
16 property play a role here? Are any of these innovations  
17 patented?

18 MR. SALLE: Yeah, there are some of these  
19 innovations that are protected by intellectual property.  
20 For example, the grip latch door slides that's a patent that  
21 Waterloo owns. We also have some trademarks on different  
22 areas of the product, so it certainly can play a role.

23 COMMISSIONER WILLIAMSON: Okay, good. Thank you  
24 for those answers.

25 CHAIRMAN SCHMIDTLEIN: Commissioner Broadbent.

1                   COMMISSIONER BROADBENT: Thank you, Chairman  
2                   Schmidtlein. I want to thank all the witnesses today. This  
3                   is a really interesting industry and it's fun to hear about  
4                   it. I was really sad I couldn't make it out to Sedalia, but  
5                   my staff went there and I got a really good briefing and I  
6                   can tell he's very interested in this case too, so you  
7                   taught him well when he was there.

8                   Mr. Salle, as long as we have this list up, are  
9                   there things that the Respondents would say are innovations  
10                  that they offer that you don't offer?

11                  MR. SALLE: I would argue that if that were the  
12                  case it would be, again, back to price. Where we certainly  
13                  have the ability to offer any of the accessories that we've  
14                  been asked to do. Oftentimes, as Kathy mentioned, what we  
15                  run into is that the retailer doesn't want to pay for it.  
16                  It's, well hey, we can get that a lot cheaper as an import.  
17                  You need to provide us with that same accessory at no cost,  
18                  and obviously, we're running a business and need to be able  
19                  to make a profit. So we can absolutely supply the different  
20                  accessories. It just comes down to cost.

21                  COMMISSIONER BROADBENT: What accessories would  
22                  they point out that you don't offer? Would it be the USB  
23                  port?

24                  MR. SALLE: There are none.

25                  COMMISSIONER BROADBENT: Really none, no

1 accessories that you do not offer?

2 MR. SALLE: Again, I would argue the opposite  
3 way where we brought most of these accessories to the  
4 market. So you mentioned USB -- power with USB ports. We  
5 had product with power long before any of the competitors  
6 did on our retail products.

7 COMMISSIONER BROADBENT: Okay, appreciate that.

8 This is for Mr. Liss of MBI. Can you discuss  
9 where MBI fits within this market? I understand you're a  
10 relatively small supplier and you do not deal with the  
11 industrial tool chest.

12 MR. LISS: Metal Box International and we've  
13 owned Metal Box for many, many years. We make retail tool  
14 chests and the business -- the principal business, the  
15 majority of the business was retail tool chests, which we  
16 make for any and all retailers has been decimated due to  
17 price. So over the last two years it pretty much went from  
18 the majority of our business to a very, very small amount.  
19 And we have some automation, so we can do things a little  
20 automated, but we can also on the other side be very  
21 flexible and can customize for the retailers as well. So  
22 our story is very similar to Waterloo in that we have been  
23 pounding the pavement, talking to customers, but essentially  
24 getting stopped at the point where we talk about price and  
25 told the price -- you know our price is not even close or

1       it's too high.

2                   COMMISSIONER BROADBENT:   So you said the retail  
3       sales of your tool chest has plummeted.  What other lines of  
4       business are you in that haven't plummeted?

5                   MR. LISS:  The majority of the metal box  
6       business during this period of investigation was tool boxes,  
7       so it's pretty much gone down to very little.  And as we  
8       said, a year ago we had announced to our team that we were  
9       going to close the facility.  We didn't have really any  
10      business for 2017.  And it wasn't until I knew the case was  
11      being filed that we held off.  So if you would talk to the  
12      leaders on our team at Metal Box, this time last year it was  
13      just about winding down the operations and trying to find  
14      homes and jobs for the people who worked there.

15                  COMMISSIONER BROADBENT:  Who had been your  
16      customers up to that point?

17                  MR. LISS:  I'd like to address that in a  
18      post-conference brief.

19                  COMMISSIONER BROADBENT:  Certainly, no problem.  
20      Okay.  How has E-Commerce, such as the advent of Amazon into  
21      this market affected the way that traditional brick and  
22      mortar retailers purchase tool chests in the United States?

23                  COMMISSIONER BROADBENT:  Well, I was hoping --

24                  MR. NICTAKIS:  Okay.

25                  COMMISSIONER BROADBENT:  Sorry about that, and

1 then you can answer too.

2 MR. NICTAKIS: Of course.

3 MR. LISS: Due to kind of the logistics of  
4 delivering something so large that it has -- that actually  
5 operates, the drawers operate there are a lot of damages  
6 that could ensue if you're shipping that through E-Commerce.  
7 So E-Commerce played a relatively small and insignificant  
8 place, at least as our experience has been on the tool chest  
9 business.

10 COMMISSIONER BROADBENT: So you don't see drones  
11 delivering tool chests any time soon?

12 MR. LISS: I think we'll see the tool chests  
13 delivering themselves before we see drones doing it, so  
14 yeah, not -- again, nothing's impossible. It certainly  
15 theoretically can be done. It's just that for a tool chest,  
16 as many could have seen on Black Friday, maybe if you saw  
17 retail prices in the \$200 price point range the shipping for  
18 something like that could easily be \$200.

19 COMMISSIONER BROADBENT: Right.

20 MR. LISS: Which would leave you roughly zero  
21 for the actual product itself, so yeah, it's challenging.  
22 Nothing's impossible, but it's challenging.

23 COMMISSIONER BROADBENT: Alright, thanks, Mr.  
24 Liss.

25 Mr. Nictakis, did you want to address that?



1 MR. NICTAKIS: No.

2 COMMISSIONER BROADBENT: You totally agree with  
3 what he's saying?

4 MR. NICTAKIS: I totally agree. I think that  
5 retailers are -- you know order online, pickup in store  
6 you're seeing some of that, but the freight characteristics  
7 make it difficult compared to a lot of other  
8 characteristics.

9 COMMISSIONER BROADBENT: Yeah, interesting.  
10 Okay.

11 Ms. Cannon, is there a disconnect between our  
12 U.S. consumption data, which shows a substantial decline in  
13 demand in the evidence provided by market participants,  
14 indicating that demand has generally increased steadily?

15 MS. CANNON: Yes, there is and we're still  
16 puzzled by it. We've discussed that and the members of the  
17 industry who can elaborate, if you'd like, said their  
18 experience was that demand was not declining. And your  
19 preliminary database did not show it to be declining and  
20 there have been some changes, which were not on our end. So  
21 I'm mystified a bit, honestly, as to why you're seeing the  
22 declines that you're seeing now that are pretty pronounced.  
23 They're not really consistent with the industry's  
24 experience, but we made our arguments based on the data that  
25 you have.

1                   Certainly, if the data were to change and be  
2 back to where the preliminary database was, our arguments, I  
3 think, are even stronger and a little more compelling; but  
4 yes, there is a disconnect.

5                   COMMISSIONER BROADBENT: Okay. Any other  
6 explanations? Okay. Mr. Stremmel, I'm trying to get a  
7 sense of the extent to which suppliers' market share is tied  
8 to the retailers they traditionally do business with in this  
9 industry. How often do retailers change suppliers or seek  
10 alternative sources of supply?

11                  MR. STREMMEL: I mean, we're primarily focused  
12 in industrial, so I'm not sure I'm an expert to --

13                  COMMISSIONER BROADBENT: That's a good point. I  
14 appreciate that. Mr. Sallee?

15                  MR. SALLEE: This is Matt Sallee. What we see  
16 -- and again it goes back to who owns the brand. The  
17 retailer typically owns the brand. So we might be a  
18 supplier one year, and it is common to take the same item  
19 and use a different supplier to supply the same or a similar  
20 item under the same brand. In fact, you might see at  
21 certain retailers, you do see at certain retailers right  
22 now, one item that is made by multiple manufacturers at the  
23 same time, under the same brand.

24                  COMMISSIONER BROADBENT: Okay.

25                  MR. KRUGER: This is Chris Kruger from MBI.

1 COMMISSIONER BROADBENT: Yeah.

2 MR. KRUGER: As a former buyer at a big box  
3 retailer, suppliers come from various different groups  
4 within the company or the organization. So I spoke earlier  
5 in my testimony about the global sourcing departments that  
6 most of these -- all of these big box retailers have.

7 They qualify factories overseas prior to  
8 normally what you would call the corporate buyer that sits  
9 in the USCs. So there are always new factories being  
10 brought onboard to quote business as they are qualified by  
11 the global sourcing department overseas.

12 COMMISSIONER BROADBENT: Okay. Why do you think  
13 there's so few sources in the U.S.? Would you all argue  
14 that it's because these earlier companies have gone out of  
15 business?

16 MR. NICTAKIS: Yes, I do. I mean we used to  
17 have four factories in the U.S. We're down to one, as an  
18 example.

19 COMMISSIONER BROADBENT: And, say eight or ten  
20 years ago, how many factories were there?

21 MR. SALLEE: Other producers in the U.S. have  
22 abandoned this category because of price and competition.  
23 So there were multiple producers outside of Waterloo and MBI  
24 that were in the market eight or ten years ago that have  
25 moved on to other things, or started importing the product

1 themselves in order to try to compete.

2 COMMISSIONER BROADBENT: Okay.

3 MR. ROSENTHAL: Commissioner Broadbent? If I  
4 could supplement the answer -- Paul Rosenthal -- it also  
5 relates to Commissioner Johanson's issue with respect to  
6 Sears, and the alleged dependence on Sears by Waterloo.

7 The issue that you have -- looking at this  
8 snapshot from 2014 to 2016, or through interim 2017, is that  
9 you're coming into what I hope is not the last act in this  
10 movie, but an act far advanced. And so if you go and you  
11 look, Sears is not the only game in town for Waterloo or  
12 MBI. They sold to many other retailers over time. We're  
13 focusing on Sears because these companies have been shut out  
14 by most of the other big boxes.

15 If you take a look at that slide that Ms. Cannon  
16 had, 21. If you look at Slide 21, you will understand that  
17 this is not about Sears. It's not only not only about  
18 Sears, it's about Sears very little. The other point about  
19 this is, not only have they lost sales to all these other  
20 companies, and so the focus on Sears is misplaced, but a lot  
21 of other companies have gone out of business, and a lot of  
22 factories have closed, even before you got to this period of  
23 investigation.

24 So I have to have, I hope the urge, you have  
25 some context here, because you're looking at what is now the

1 last big customer that had been buying a lot from Waterloo,  
2 that they want you to focus on, but all these other  
3 customers are out there, and they're not buying because of  
4 price.

5 CHAIRMAN SCHMIDTLEIN: Okay. I think this may  
6 be best answered by Ms. Cannon because it's confidential.  
7 Can you help me understand AUV data? So when I look at the  
8 Table C-1 that's coextensive with the scope, one, you see  
9 that the U.S. shipment AUV data is less than both China and  
10 Vietnam AUVs. That's one question. And the second question  
11 is, you see all of the AUVs going up in 2016, even above  
12 where it starts in 2014.

13 MS. CANNON: Yes. So the answer to the question  
14 is, the U.S. producer AUVs tend to be less because the U.S.  
15 producers find that they are most cost-competitive  
16 increasingly over this period on smaller size products  
17 because the largest sizes of the products are being dumped  
18 and under -- the price is much less, the price underselling  
19 is worse in the larger sizes, which has forced us down more  
20 so into smaller than larger.

21 Although we still are in all of those, but  
22 relative to what they're selling. Conversely the imports  
23 continue to move more and more into those bigger sizes.  
24 They're bringing much bigger products to the market. That's  
25 what's distorting the AUV data. That's why the AUV data is

1 going up, because more of their product's shifting to those  
2 big products. They cost a little bit more, but relatively,  
3 they're hugely less than what their cost or value or price  
4 should be.

5 CHAIRMAN SCHMIDTLEIN: So why is the U.S. AUV  
6 then going up? I mean, if I understand you, that it's below  
7 the subject because of the product mix --

8 MS. CANNON: Correct.

9 CHAIRMAN SCHMIDTLEIN: -- where the U.S. is  
10 producing smaller units. Therefore, you're not --

11 MS. CANNON: Relative to them. But the U.S. is  
12 also, it's going up because we are also shifting to larger  
13 sizes. The market is moving to slightly larger sizes and we  
14 are moving somewhat to slightly larger sizes, which is  
15 shifting the AUVs up a bit, too.

16 So wherever we can get the business, and I  
17 believe, and Mr. Sallee can expand, or Mr. Nictakis, the 41-  
18 and 52-inch models are very popular across the board.  
19 That's what we sell a lot of. That's what the foreign  
20 producers sell a lot of, but they're selling a huge volume  
21 of those at those prices and that's sort of weighting their  
22 AUVs a little differently. When you look at the actual  
23 price comparisons in your pricing data, then you see the  
24 underselling when you're comparing specific models.

25 MR. ROSENTHAL: And just to clarify, it's not

1 that we're not producing those larger models. We're just  
2 not selling them.

3 CHAIRMAN SCHMIDTLEIN: So is it easy to produce  
4 a different size model on automated lines?

5 MR. NICTAKIS: This is Bill Nictakis and I don't  
6 have all the data, but what's happened with our business and  
7 the category has gone from smaller 26-inch type of boxes to  
8 40- and 52-inch boxes. We're undersold by a large amount,  
9 but the fact is, a big box sells for \$500 or \$600. A small  
10 box sells for \$300. So we're seeing the average price per  
11 unit go up. The gap versus Chinese, Vietnamese imports is  
12 still huge, but our average mix is clearly moving up to  
13 bigger size boxes over the last few years.

14 MR. ROSENTHAL: And these are produced on their  
15 automated lines. It's not that the larger ones are produced  
16 by hand, individually. They all are produced on the  
17 automated lines. That's one of the defining characteristics  
18 of the retail product.

19 CHAIRMAN SCHMIDTLEIN: And does that require any  
20 sort of change in that line, in order to move between a  
21 24-inch to a 52- or a 60-inch --

22 MR. NICTAKIS: Yeah. A 26-inch is one line.

23 CHAIRMAN SCHMIDTLEIN: 26? Okay.

24 MR. NICTAKIS: And then you have like the 40-  
25 and 52-inch is made on a different line.

1                   CHAIRMAN SCHMIDTLEIN: I see.

2                   MR. NICTAKIS: They're different, but you know

3                   --

4                   CHAIRMAN SCHMIDTLEIN: They're different lines.

5                   MR. NICTAKIS: The 40- and 50-inch, you can move  
6 around, and the big shift has been less 26-inch and more of  
7 the mix moving up to bigger boxes. Which is, for us, and I  
8 guess the whole industry, the competition's gonna say the  
9 same thing.

10                  CHAIRMAN SCHMIDTLEIN: Okay. Mr. Morey, did you  
11 wanna add something?

12                  MR. LISS: Yeah, it's Mr. Liss --

13                  CHAIRMAN SCHMIDTLEIN: Oh, I'm sorry.

14                  MR. LISS: Yeah, yeah, I would say that at least  
15 within our business, over the period of investigation, we  
16 have had a relatively -- we've been more focused on the  
17 larger sizes the whole time. So we don't have as much of a  
18 shift. Mostly in this 46- to 50-inch range, and so I can  
19 definitively say, for us, the average selling price has  
20 declined fairly dramatically.

21                  And we don't have a shift issue. You know,  
22 where you look at a whole industry, there could be shifts  
23 within products. We can certainly make the smaller sizes  
24 and we can make the larger sizes, but our general business  
25 has been focused on the larger sizes during that period in a



1 constant fashion, and the pricing has declined fairly  
2 dramatically.

3 CHAIRMAN SCHMIDTLEIN: Okay. There's two things  
4 in the staff report I wondered if you all could respond to.  
5 One is the comparisons between the U.S. product and Chinese  
6 and Vietnamese, and this is at Table 2-10. I don't think  
7 this is confidential.

8 This is from purchasers where they asked about  
9 eighteen different factors, including customization of  
10 product for your firm, innovative high-tech features and  
11 product range. And when compared to China, a fairly high  
12 number of purchasers rated the U.S. as inferior. So if you  
13 look at customization, twelve purchasers rated the U.S.  
14 inferior, nine on innovative and nine on product range.

15 Now there were some that rated them as  
16 comparable, but a higher number rated them as inferior. Can  
17 you -- how should we take this into account? Given your  
18 testimony that customization, innovation, product range --  
19 you know, these are not the reasons that you've lost sales?

20 MR. NICTAKIS: This is Bill Nictakis from  
21 Waterloo. It's because we charge for it. And the  
22 Vietnamese and Chinese companies don't. So it comes back to  
23 price. We offer innovation. They don't like the fact that  
24 we charge for the innovation.

25 And if we're gonna add a power strip or add a

1 soft-close side, USBs, things like that we sell, it's gonna  
2 cost X dollars more. And they say, well, I'm not getting  
3 that from my Chinese or my Vietnamese. You need to take  
4 your price down if you want it. So I mean, I think that's  
5 how I interpret that very readily. It's just pure price.

6 CHAIRMAN SCHMIDTLEIN: They do have --

7 MR. NICTAKIS: You can see the innovations.  
8 There's not, you know, I wish I could say we're -- 'cuz this  
9 is an innovation-driven category. They're putting the power  
10 strip on and things like that. It's not that innovative,  
11 it's just to add a little cost, we need to get paid for  
12 that.

13 MS. CANNON: This is --

14 CHAIRMAN SCHMIDTLEIN: There is a price factor  
15 though, where they asked you to compare on price, which I  
16 just looked at, which is interesting, because on that  
17 category, more purchasers rated the U.S. as comparable on  
18 price than inferior. Which, you know, if the price was felt  
19 to be higher, you would think it would be more on inferior.

20 MS. CANNON: Right, exactly. And this is not  
21 consistent with other record data which show the  
22 underselling. But I wanna just mention one document that we  
23 have that we'll put in the post-hearing brief that I found  
24 pretty illuminating on this quality issue.

25 Because I also was puzzled about these

1 statements when you have, you know, on the one hand, we  
2 supply the Craftsman brand, we have the Lowe's award. But  
3 why do you have purchasers making these comments about  
4 quality or innovation? So when Lowe's awarded the  
5 Innovation of the Year award to Waterloo this year, there  
6 was comments that were provided to Waterloo that we can  
7 submit in our brief.

8 But they told Waterloo that a couple of the  
9 reasons that they got the award were: "Delivered  
10 market-leading features at a great value," and "Offered  
11 market-leading quality at a competitive price." So their  
12 articulation of why this award was given on both variables  
13 was relative to price.

14 So in their minds, this is part of their  
15 analysis. So when you talk about quality and innovation,  
16 they equate it to add a price. They add that variable.  
17 It's not just pure innovation. As Mr. Sallee testified, all  
18 of the innovative features that you see here Waterloo makes  
19 and Waterloo made them before most of the Chinese and  
20 Vietnamese producers made them. The quality of the product  
21 is phenomenal. It's simply that they're equating both of  
22 those and tying them to, at the relative price, and that's  
23 where the problem lies.

24 CHAIRMAN SCHMIDTLEIN: Can you all put anything  
25 on the record? I know you've put some e-mails and things

1 where you've offered to provide a product with an innovation  
2 and it's been rejected because of the price?

3 MS. CANNON: Absolutely. We will be providing  
4 more documentation on the record of lots of qualities and  
5 features and innovations that we provided, but you might  
6 want to further expand on that.

7 MR. SALLEE: Yeah, as Kathy mentioned, we -- I  
8 believe in the post-hearing brief, we can supply copies of  
9 presentations showing innovations and unique features that  
10 were declined by the retailer, due to price.

11 MS. BECK: I think it was 25. (Off Mic)

12 CHAIRMAN SCHMIDTLEIN: 25 is what you said?  
13 Okay. And then my time is up. But I wanna ask before --  
14 the respondents in their opening statement mentioned that  
15 one of these cabinets is what they call an industrial  
16 cabinet, I believe. Do you all know which one it is? And  
17 do you agree that that is an industrial cabinet in terms of  
18 what's being argued with regard to like product?

19 MS. CANNON: Kathy Cannon. My understanding,  
20 Chairman Schmidtlein, wasn't that they said it was  
21 industrial. I thought they said it was out of scope, not an  
22 in-scope product. And I believe they're referring to the  
23 fact that they're starting to make larger dimensional sizes  
24 in the 60-inch size.

25 CHAIRMAN SCHMIDTLEIN: I see.

1 MS. CANNON: Size cut off. That's my  
2 understanding.

3 CHAIRMAN SCHMIDTLEIN: Okay. All right, thank  
4 you. Back to Vice-Chairman Johanson.

5 VICE CHAIRMAN JOHANSON: Thank you, Chairman  
6 Schmidtlein. In joint respondents brief at Page 30,  
7 respondents claim that Sears was forced to look elsewhere  
8 for product after Waterloo failed to bid on certain lines.  
9 Mr. Arvey's staff conference testimony is cited as noting  
10 that Craftsman wanted to launch some product features in  
11 2016 and that, although Waterloo discussed these projects,  
12 "ultimately Waterloo advised Sears and Craftsman that it  
13 would not bid for that business." "They just didn't provide  
14 a quote."

15 Could you please discuss why Waterloo did not  
16 bid on more product lines at Sears?

17 MR. NICTAKIS: Yeah, this is Bill Nictakis at  
18 Waterloo. We were asked to do three new items at Sears, all  
19 within a four-month, five-month time frame. The first to  
20 launch in June, and then one of the others in September.

21 And we have plenty of manufacturing capacity,  
22 but these all were new products with some new tooling and we  
23 said we can get two done. We can't get three. If you wanna  
24 wait, we can do the third, but we can't produce innovation A  
25 in June, B in September and C in October. Can't go that

1 fast. We can do two for you, we can do the third later.  
2 And they were, "No, that's not acceptable. We're going  
3 elsewhere to get the third."

4 MR. SALLEE: This is Matt Sallee. I'll add to  
5 that. Bill's absolutely right. The thing I wanna add is  
6 that it wasn't that they asked for three products. They  
7 asked for two major line launches and a third product, and  
8 we accepted and partnered with them and developed the two  
9 line launches, so multiple products which were a large  
10 percentage of their sales in 2016.

11 So we successfully worked together and launched  
12 those products. The additional one that they asked for that  
13 we said, "Hey, we can do it. We just can't do all of them  
14 at the same time." We wanted to wait and do that one a few  
15 months later, but they weren't willing to wait. So I think  
16 that's where that comment comes from.

17 VICE CHAIRMAN JOHANSON: Thanks for your  
18 responses there. Likewise, what is your response to joint  
19 respondents' assertion that Waterloo refused or was unable  
20 to meet Lowe's brand product requirements, resulting in  
21 Lowe's decision to continue to source it's Kobalt brand from  
22 Hom-Steel, a Chinese product during the period of  
23 investigation? And this is discussed at Pages 31 to 32 of  
24 the joint respondents' pre-hearing brief.

25 MR. SALLEE: Again, this is Matt Sallee. I

1 would actually -- as demonstrated in winning the innovation  
2 award from Lowe's -- not only did we successfully meet  
3 Lowe's requirements during the period, we partnered with  
4 them in a big way and won most of that business by  
5 aggressively going after that business in an attempt to  
6 compete and successfully did that and launched an entire  
7 line of products under the Kobalt name partnering with  
8 Lowe's.

9 MR. NICTAKIS: And this is William Nictakis. We  
10 can do the stainless products. We have the capability --  
11 we've done them in the past. It's a matter of, can you do  
12 all this new--and they're not little, these are big line  
13 launches--all at the same time. And it's more, just say, we  
14 can do these now, we can do this one for you later.

15 But we can do -- we do stainless tops today. We  
16 can do stainless chests. They cost more, and we get  
17 push-back, that "you're too expensive compared to China or  
18 Vietnam," but we have the capabilities in our Sedalia  
19 facility to do a complete stainless box. It's just  
20 expensive, compared to the current products.

21 VICE CHAIRMAN JOHANSON: How has the closure of  
22 your Mexican facility affected your ability to supply the  
23 U.S. market with stainless steel products?

24 MR. NICTAKIS: We had made -- our Mexico  
25 facility was industrial and stainless. When we shut it

1 down, we moved the industrial equipment into that dedicated  
2 part of the plant, in the back right corner, for industrial.  
3 We decided not to make stain -- we didn't have to move  
4 equipment for stainless.

5 We just -- given the demand was declining --  
6 it's less than 5% of the market -- it had been big and was  
7 plummeting like a stone. We had about nine months'  
8 inventory at the time on-hand. We just said, well, we're  
9 not gonna make it now. We can make it, but here's what the  
10 new price is gonna be. And it was, well, we have enough  
11 inventory for now and we don't wanna pay that new price.  
12 But we can make stainless steel in Sedalia, Missouri.

13 VICE CHAIRMAN JOHANSON: And when you talk to  
14 the stainless steel chest, is that the body of the chest?

15 MR. NICTAKIS: There's an example in the back.

16 VICE CHAIRMAN JOHANSON: Right.

17 MR. NICTAKIS: That's what I'm talking about.

18 VICE CHAIRMAN JOHANSON: Okay, thanks. And  
19 getting back to you, Mr. Sallee, and the whole issue of the  
20 Lowe's award of the vendor of the year, Ms. Cannon spoke on  
21 this briefly, but could you maybe describe some of the  
22 criteria that Lowe's used to select Waterloo as vendor of  
23 the year for innovation? And if you don't have all of that  
24 with you, if you could include that in the post-hearing  
25 brief?



1                   MR. SALLEE: Yes, we can include the actual  
2 document in the post-hearing brief. As Cathy mentioned,  
3 it's a combination. I mean, the award is called an  
4 innovation award, but they also talk about value and price  
5 within that award itself. So the award itself, I guess as  
6 the innovation guy for Waterloo, I'd like to pound our chest  
7 a little bit and say, hey, we partnered with them to do  
8 things that we hadn't done with toolboxes before. We did  
9 angles and used, yeah, different designs on drawers and the  
10 shell of the box that we hadn't done before, demonstrating  
11 that we absolutely have the ability to partner with a  
12 retailer to do innovative things like that.

13                   VICE CHAIRMAN JOHANSON: Thanks, Mr. Sallee.  
14 How do you all respond to Home Depot's allegations on pages  
15 7 through 8 of its pre-hearing brief, and most of this  
16 information is confidential, that Home Depot essentially had  
17 "no choice but to purchase from import sources?"

18                   MR. NICTAKIS: This is Bill Nictakis. Since  
19 it's confidential, I haven't seen it. I can tell you my  
20 history with Home Depot, which is when I first came to  
21 Waterloo in 2014, I went and met with their senior vice  
22 president and his organization about why we had lost the  
23 business because they had decided to fire us and move the  
24 business to China.

25                   It was in -- it was early December three years,

1 I guess. And the response was your prices are too high. So  
2 I don't know the history of all that. That was when I came  
3 on, but their senior vice president was very clear that our  
4 prices were too high and that's why he went to China.

5 VICE CHAIRMAN JOHANSON: Thanks, Mr. Nictakis.  
6 Joint respondents believe that Stanley Black and Decker's  
7 acquisition of Waterloo is noteworthy, particularly in  
8 reference to the domestic industry's ability o raise capital  
9 and its vulnerability to injury. And this is discussed at  
10 pages 2 to 3 of the joint respondent's pre-hearing brief.

11 And they note there that "the Commission's  
12 record is strangely devoid of any significant details of  
13 this important transaction." Why is there so little  
14 information on the record about this acquisition?

15 MS. CANNON: Kathy Cannon. Let me start by  
16 saying we've responded to the Commission's request to  
17 provide the information that the Commission sought with  
18 respect to that transaction. So we have provided what you  
19 have asked for, but I'd like to invite Mr. Stremmel to maybe  
20 provide more response regarding their claims that somehow  
21 the acquisition by Stanley Black and Decker is insulating  
22 Waterloo from further injury, which is I think what they're  
23 saying.

24 MR. STREMMEL: Yes, Jason Stremmel. I mean,  
25 I'll start by saying that Waterloo is owned by Fortune

1 Brands and -- which is another large organization and they  
2 weren't insulated at that point as well.

3 I will say that every kind of investment that  
4 Stanley Black and Decker makes has to stand on its own  
5 merit. So just because we're a large organization doesn't  
6 mean that we're going to throw capital dollars to an  
7 organization that's declining.

8 Certainly, we're hopeful. And we went into this  
9 acquisition in a hopeful mindset that if we get to a level  
10 playing field, we can compete and we will win the business,  
11 but I wouldn't necessarily say that just because Stanley  
12 Black and Decker has purchased a company, that means that  
13 we're going to invest where it doesn't make sense. Stanley  
14 Black and Decker has a responsibility to its shareholders as  
15 well, to invest properly and there's a lot of competing  
16 interests.

17 So certainly, we're hopeful that as growth  
18 continues, investment would follow. And that's pretty much  
19 been our methodology. And you know, Stanley Black and  
20 Decker has a commitment to make where we sell. It's a very  
21 public commitment that our CEO stands behind, which means  
22 that if we sell in the United States, we want to make in the  
23 United States. So that has been a very strong edict that we  
24 have and we try to follow it.

25 VICE CHAIRMAN JOHANSON: Thanks, Mr. Stremmel.

1 My time has expired.

2 COMMISSIONER WILLIAMSON: Okay, thank you. I  
3 think you've explained earlier why you purchased Waterloo.  
4 I was wondering, what were your reasons for purchasing the  
5 Craftsman brand?

6 MR. STREMMEL: You know, as the leader of the  
7 middle storage operations, I'm not sure that I'm all the  
8 know in, you know, their rationale behind the Craftsman  
9 brand. I -- although I do know that we value the Craftsman  
10 brand significantly, but the behind the scenes of why we  
11 purchased them is probably above my pay grade.

12 COMMISSIONER WILLIAMSON: Okay, thank you. I --  
13 if there's anything post-hearing you could -- you want to  
14 add to what that purchase may mean for the -- shall we say  
15 the viability of the future of Waterloo's ability to --

16 MS. CANNON: Yes, Commissioner Williamson, we'll  
17 look into that further --

18 COMMISSIONER WILLIAMSON: Okay.

19 MS. CANNON: -- and see if we can provide  
20 further details post-hearing.

21 COMMISSIONER WILLIAMSON: Okay, yeah, in  
22 particular, you know, what effect might that have on the  
23 U.S. market?

24 And explaining why you purchased the fact that,  
25 you know, it's got to make business sense and you're not

1 going to invest if it's not a good investment, I was trying  
2 to think about what that statement means about the -- who  
3 claims the respondents were making -- it's not saying that  
4 you had a different valuation -- that you thought the  
5 current state of the company was better than what has been  
6 described as much as the future?

7 MR. STEMMEL: No, so as you would probably  
8 appreciate, there's a lot of decisions that go into when you  
9 make an acquisition of this nature, right? There's a lot of  
10 things that we looked at. We looked at the capability of  
11 the factory. We looked at what we believe is core in our  
12 business that we don't have the ability to make retail tool  
13 boxes. It was not something that Stanley Black and Decker  
14 had the ability to make at the time. So that's something  
15 that we believe is core. Tool storage is core within  
16 Stanley Black and Decker and we didn't have that ability.  
17 So that was important.

18 When we went to the facility to look at it,  
19 certainly, we saw the commitment and the passion of the  
20 people, right? And that was first and foremost, you know,  
21 something that certainly as an OPS leader, I look for the  
22 commitment of the organization and the commitment of the  
23 people there. And that was for those that were lucky enough  
24 or fortunate enough to go to the facility in Sedalia to see  
25 that, they -- I'm sure they saw that.

1                   But the highly automated manufacturing processes  
2 was something that was very attractive to Stanley Black and  
3 Decker. Certainly, we bought the Craftsman brand name in  
4 March. So the ability to control our own destiny played  
5 certainly a large factor as well in that. So we didn't have  
6 to give innovation and new ideas, no product launch,  
7 potentially to the Chinese or Vietnamese companies.

8                   So there is certainly a lot of factors that go  
9 into that, but you know, we were also hopeful with the  
10 anti-dumping as well. You know, we didn't purchase them on  
11 the, you know, assuming that this would happen, but  
12 certainly, that we were hopeful of the -- a positive ruling  
13 that we could get on the same playing field. And that's  
14 really what we're looking for, to get on the same playing  
15 field, not to have any competitive advantages to be at the  
16 same competitive advantage.

17                   COMMISSIONER WILLIAMSON: Okay, thank you.  
18 Maybe post-hearing, if you want to make any comments about  
19 how current profitability of the operation factored into the  
20 decision, it might be helpful.

21                   Will there be any -- will the new ownership  
22 affect Waterloo's profit mix to the extent that you can say  
23 something about a particular area. If you want to do that  
24 post-hearing, that's fine.

25                   MR. ROSENTHAL: Could you repeat the question,

1 please?

2 COMMISSIONER WILLIAMSON: I'm sorry. Will the  
3 new ownership affect Waterloo's product mix?

4 MR. ROSENTHAL: Product mix?

5 COMMISSIONER WILLIAMSON: Yeah.

6 MS. CANNON: At --

7 COMMISSIONER WILLIAMSON: But if you want to  
8 just -- I'm sorry.

9 MS. CANNON: Well, I think we have addressed  
10 that a bit, Commissioner Williamson. I think the main  
11 difference that they've described is that the industrial  
12 product that's currently sitting on the factory floor at  
13 Waterloo is going to be relocated to Stanley Black and  
14 Decker so that Waterloo would be fully just at its facility  
15 only at the retail -- in the retail tool chests. So that  
16 would alter its product mix.

17 COMMISSIONER WILLIAMSON: Okay. Thank you. So  
18 a different question. How should the Commission assess the  
19 direct import purchase cost data?

20 MS. CANNON: Kathy Cannon. This is a very  
21 important issue in this case. We first of all, it -- direct  
22 imports account for the vast bulk of the sales.

23 COMMISSIONER WILLIAMSON: Uh-huh.

24 MS. CANNON: The Commission's recognized in the  
25 past you should look at those data. And when you look at

1 those data here, as you're pre-hearing report indicates, as  
2 well as the tables we've provided, there's substantial  
3 underselling.

4           You know, the only question, I think, that  
5 arises after that is should there be some adjustment for  
6 "additional costs." And that's what we spent a fair amount  
7 of time trying to go through and elucidate in our briefs,  
8 because in the past, the Commission has determined that  
9 there should be some adjustment for some assumed additional  
10 costs. And I'm not sure whether at one time in  
11 questionnaires, the data request was different or what, but  
12 when we've looked at the questionnaires, as they are phrased  
13 now, what you're asking for the importers to provide on  
14 direct imports is landed cost duty paid value at a U.S.  
15 port. FOB U.S. port that includes all of their ocean  
16 freight, customs duties, handling, brokerage expenses,  
17 everything like that.

18           And we are providing data from U.S. producers on  
19 an FOB plant basis. And as you heard Mr. Kruger testify,  
20 when you're a buyer and you're looking at prices, that's  
21 what you compare. You consider those to be the same level  
22 of trade. There aren't any additional costs after that.

23           The only additional costs would be inland  
24 freight, which happens to both. So you really do have a  
25 fair comparison and the additional costs that the Commission



1 has sometimes tried to adjust for in other cases, or at  
2 least take into account, really shouldn't be adjusted for,  
3 because you've already got those in your database.

4 So here, the margins of underselling are so  
5 significant, that even if you adjusted for the additional  
6 costs reported, you'd still see underselling, but as a  
7 practical matter methodologically, we are encouraging you to  
8 really look at the database that you have as it's been  
9 provided in the questionnaire. And the fact that you,  
10 because of the way the questionnaire is framed and the way  
11 the data requested, now do have FOB port and FOB U.S. plant  
12 data that is completely comparable.

13 COMMISSIONER WILLIAMSON: Okay, thank you. And  
14 thinking about this question, I was wondering, how -- are  
15 most of these things, especially the larger ones, broken  
16 down and you have to do some of the assembly at home or do  
17 they come fully -- the picture in your slide sort of implied  
18 that at least that whatever that item was was complete. But  
19 I was just wondering about that.

20 The reason why I'm doing that is just as I said,  
21 this whole thing about why are they getting bigger and  
22 bigger? And I'm trying to figure out how do you get it home  
23 from the store and stuff like that?

24 MR. SALLEE: This is Matt Sallee. To answer  
25 your question, we wonder the same thing sometimes, but they

1 are all -- traditionally the products in this category are  
2 fully welded. And there's very light assembly that a  
3 consumer would need to do. So the end user would do things  
4 like put on castors, maybe a side handle, but the actual  
5 construction of the boxes is typically fully welded.

6 COMMISSIONER WILLIAMSON: Okay. And that's the  
7 same for the imports, too?

8 MR. SALLEE: Correct.

9 COMMISSIONER WILLIAMSON: Uh-huh. Okay. Good.  
10 Okay, what about in terms of if an importer, do they have --  
11 is there any extra distribution that they're going to have  
12 to get involved in that is someone distributing from a plant  
13 has get involved in or any kind of extra services?

14 MR. NICTAKIS: This is Bill Nictakis.

15 COMMISSIONER WILLIAMSON: Yeah.

16 MR. NICTAKIS: No. In fact, most of our  
17 shipments to the big boxes retailers are FOB Sedalia plant.

18 COMMISSIONER WILLIAMSON: Uh-huh.

19 MR. NICTAKIS: FOB, L.A. port or whatever. So  
20 there's really no additional that they wouldn't take from  
21 us.

22 COMMISSIONER WILLIAMSON: Okay, so they will  
23 send their truck or arrange for the truck --

24 MR. NICTAKIS: Contract the truck, just like  
25 they contract the truck.

1                   COMMISSIONER WILLIAMSON: And whether or not  
2 they want to send it to -- directly to their stores to send  
3 it to some warehouse and then --

4                   MR. NICTAKIS: Yeah, and they typically send it  
5 to a warehouse in --

6                   COMMISSIONER WILLIAMSON: Okay.

7                   MR. NICTAKIS: Absolutely.

8                   COMMISSIONER WILLIAMSON: Okay.

9                   MR. KRUGER: This is Chris Kruger with Metal  
10 Box.

11                   COMMISSIONER WILLIAMSON: Sure.

12                   MR. KRUGER: So --

13                   COMMISSIONER WILLIAMSON: Yeah.

14                   MR. KRUGER: -- when the global sourcing  
15 department put their quotes together for the buyer back in  
16 headquarters --

17                   COMMISSIONER WILLIAMSON: Uh-huh.

18                   MR. KRUGER: -- it's an FOB port or FOB factory.  
19 Their quote sheets reflect that. So when you're doing a bid  
20 sheet for most of these retailers, big box retailers, your  
21 FOB, your location, all these people are collect. These big  
22 box retailers are amazing negotiators of freight, far better  
23 than any of us factories, whether we're import or domestic  
24 factories.

25                   COMMISSIONER WILLIAMSON: Uh-huh.

1                   MR. KRUGER: So they leverage their freight and  
2 they leverage their distribution system. So it is truly an  
3 FOB to FOB comparison.

4                   COMMISSIONER WILLIAMSON: Okay, so they're  
5 saying they're going to be -- they think they can be more  
6 efficient at the logistics of getting it into the store.

7                   MR. KRUGER: It's not that they say it. They  
8 actually -- they are.

9                   COMMISSIONER WILLIAMSON: They are, okay.

10                  MR. KRUGER: Yeah.

11                  COMMISSIONER WILLIAMSON: Good, okay. No,  
12 that's helpful for -- good. How are substantial differences  
13 in prices reported for our pricing -- there are substantial  
14 differences in the prices reported for our pricing products.  
15 Are these pricing products sufficiently narrowly defined to  
16 allow apples to apples comparisons?

17                  MS. CANNON: Yes, Commissioner Williamson, we  
18 believe that the price parameters are properly defined. We  
19 have seen and it's been reported by our industry witnesses  
20 massive margins of underselling that they experience in the  
21 market. So it's not that out of line with what their actual  
22 market experience has been. They do substantial  
23 underselling on a lot of these products.

24                  COMMISSIONER WILLIAMSON: Okay. Okay. Thank  
25 you for those answers.

1                   COMMISSIONER BROADBENT: Yeah, this is for Mr.  
2                   Stemmel for the record. I just -- we had -- Commissioner  
3                   Williamson had asked about this and I thought I'd just read  
4                   my questions and then -- on the Craftsman brand and then you  
5                   guys can answer them for the record. Can you discuss the  
6                   rationale behind Stanley's acquiring of the Craftsman brand?  
7                   Was it driven by the value of the brand in this market or  
8                   was it driven by multiple market segments?

9                   And then also, Mr. Stemmel of Stanley, what are  
10                  your plans for Craftsman, a brand that has traditionally  
11                  been dominated by one retailer, Sears, given that the big  
12                  retailers which comprise most of the market generally have  
13                  their own in-house brands, what companies are you hoping to  
14                  sell Craftsman tool chests to, particularly given that Sears  
15                  has a perpetual -- that Sears has a perpetual license for  
16                  the next 15 years to use the brand label for tool chests,  
17                  regardless of the source?

18                  So if you could just answer those for --

19                  MR. STEMMEL: Sure.

20                  COMMISSIONER BROADBENT: Yeah, and if you wanted  
21                  to comment, feel free.

22                  MR. STEMMEL: Yeah, specifically to the  
23                  rationale, we will address that in the post-hearing brief in  
24                  terms of where we as an organization are looking to expand  
25                  Craftsman. It's public that we are looking to partner with

1 Lowes to put Craftsman in Lowes. In terms of any other  
2 channels, I can't speak to and that's something that we can  
3 address in a post-hearing brief.

4 COMMISSIONER BROADBENT: Okay, that's helpful.  
5 Thank you very much.

6 MR. STEMMEL: Okay.

7 COMMISSIONER BROADBENT: Mr. Stemmell, can you  
8 discuss the extent to which the filing of this petition was  
9 a factor in Stanley's decision to acquire Waterloo? I know  
10 you touched on that briefly.

11 MR. STEMMEL: Sure. Yeah, and Jason Stremmel.  
12 It -- there was a lot of factors when we looked at acquiring  
13 Waterloo. And just to speak to it again, we don't have  
14 retail manufacturing of tool boxes in the United States.  
15 And we have an edict that we want to make where we sell. So  
16 if we sell in the United States, we want to make in the  
17 United States. We did not have that capability. So that is  
18 certainly something that entered -- started the -- our  
19 interests in Waterloo.

20 When we purchased Craftsman, the brand, we went  
21 to visit them as a supplier, just as a normal supplier  
22 arrangement. And we saw their impressive operations. We  
23 saw the people. And it really peaked our interests about  
24 controlling our own destiny in terms of our manufacturing  
25 ability. So that is kind of what started the wheels turning

1 for Stanley Black and Decker. I was a part of it early on  
2 and the anti-dumping certainly weighed into the decision.  
3 It was not the decision function for us, but it certainly  
4 weighed into the decision.

5 COMMISSIONER BROADBENT: Okay, that's helpful.  
6 What was the timing of when you started talking to Waterloo?

7 MR. STEMMEL: We purchased the brand in March.  
8 We started the -- I mean, Bill can talk to it, but we  
9 started the supplier customer arrangement not long  
10 thereafter, probably a couple months after that.

11 MR. NICTAKIS: Yeah, this is Bill Nictakis. The  
12 day it was announced, January 5th or 4th, I sent 100 emails  
13 to -- everybody I could see at Stanley Black and Decker,  
14 tried all the permutations of their names, because Matt and  
15 I wanted to get there and be a supplier. We're out chasing  
16 new business. This is an opportunity for us.

17 So I sat in the Phoenix airport, sent 100  
18 emails. They all got bounced back. I finally got one  
19 through to their investor relations. He got me to sourcing.  
20 Matt and I took a tractor-trailer worth of product, had it  
21 driven up in a blizzard, and showed product to the global  
22 tool storage general manager, marketing team, product  
23 development, engineers in early February.

24 And they liked what they saw in terms of our  
25 quality, our innovation, our capabilities and said, okay, I

1 don't think we can make this in-house. We're going to come  
2 down to your plant in Sedalia and see it. And that was in  
3 early March. I mean, that's when Jason and some of the  
4 engineering team came down to view the plant.

5 And I think at that point, they realized, all  
6 right, we can't make this in our industrial plants. So if  
7 we want to make retail product, we're either going to build  
8 from scratch, or we're going to buy Waterloo, but the first  
9 initial entry, you know, contact was in January trying to  
10 get in the door and we met with them in February. And they  
11 came down in March. And then, things started going, but it  
12 was really as a supplier up until mid, you know, mid-April.  
13 We were just -- we were trying to sell them product.

14 COMMISSIONER BROADBENT: Yeah, that's really  
15 interesting. When Stanley bought Waterloo, what did you  
16 expect to gain in market share and access to new customers  
17 and so forth?

18 MR. STREMMEL: And maybe we'll address that in a  
19 post-hearing brief.

20 COMMISSIONER BROADBENT: Yeah, that's helpful.

21 MR. STREMMEL: Yeah.

22 COMMISSIONER BROADBENT: And then how it relates  
23 to your competition that you're seeing from the imported  
24 tool chest and cabinets.

25 MR. STREMMEL: Okay.



1                   COMMISSIONER BROADBENT: Mr. Rosenthal, with  
2                   only one large U.S. producer, what would be the effect of  
3                   putting prohibitive ADCBD orders on imports from the two  
4                   alternative sources? We'd have pretty much an  
5                   anti-competitive market for tool chests in the U.S.,  
6                   wouldn't you think?

7                   MR. ROSENTHAL: No, I would not think that.  
8                   That comes as no shock to you, I'm sure. The purpose of the  
9                   dumping law is not to put up a wall. It's to get the  
10                  foreign producers to price fairly. And they've got the key  
11                  to the -- their own jail, if you will, in their own hands by  
12                  adjusting their prices and eliminate their dumping or  
13                  reducing their dumping.

14                 And interesting enough in this particular case,  
15                 the margins that were calculated were actually based on the  
16                 company's data, using Commerce methodology, of course, but  
17                 they were not fax available rates. There's a very easy way  
18                 for these companies to sell in the U.S., the subject  
19                 countries. And that's by raising their prices. There's no  
20                 reason why the customers cannot buy from these other  
21                 countries, as long as those prices are fairer.

22                 And by the way, you heard an example before  
23                 where Waterloo had to drop its price \$200 on a particular  
24                 unit in order to get the sale at a particular retailer. If  
25                 that -- if that price were higher by Waterloo, and higher by

1 the foreign subject producer, we would not be in this  
2 problem -- in this situation we're in today.

3 So this is the -- an opportunity for our pricing  
4 to be restored and for fair supplying to be done. It's not  
5 to keep out imports. It's to keep the imports at a fair  
6 price that allow U.S. producers to compete.

7 And by the way, there is plenty of excess  
8 capacity in the U.S. market. The companies here can supply  
9 a lot more of the market than they've been able to. Plants  
10 have closed, lines have closed. They're down to one shift  
11 as you heard five days a week, instead of three shifts,  
12 seven days a week, which is where they were earlier. They  
13 --

14 COMMISSIONER BROADBENT: Okay.

15 MR. ROSENTHAL: -- at four plants.

16 UNIDENTIFIED SPEAKER: Go ahead.

17 COMMISSIONER BROADBENT: Mr. Sallee, what  
18 determines the SKUs upon which you bid when you receive a  
19 bid request?

20 MR. SALLEE: It's a little bit of a mix, based  
21 on the situation. There's -- as I mentioned earlier,  
22 Waterloo is a respected supplier in the industry. So many  
23 times, we'll have an established relationship where we're  
24 working with the retailer and they'll seek out our ideas or  
25 innovations and typically developing an entire line, not

1 just a product.

2 And then there's the opposite, where a retailer  
3 may go out and search for the lowest price on a very  
4 specific product with specific specifications. So it's a  
5 little bit all over the board, depending on the retailer's  
6 needs.

7 COMMISSIONER BROADBENT: But how do you kind of  
8 decide what to bid on and what not to bid on?

9 MR. SALLEE: This -- yeah, we'll bid on -- if we  
10 get a specification request for everything, we'll bid on  
11 anything that we think we possibly have a chance to gain the  
12 business on. And a lot of that comes down to price and  
13 prior experience, but we have the ability to make any size  
14 within the range that they're requesting. It just comes  
15 down to price.

16 COMMISSIONER BROADBENT: And then there's some  
17 evidence on the record that you -- some testimony that you  
18 did not bid on certain projects. And I just wondered how  
19 you made a decision?

20 MR. SALLEE: Right. Yeah. And I'll speak to  
21 automation a little bit, where as we've talked about, we're  
22 highly automated. And the -- the misconception is that we  
23 can't do it to go off of some of those automated lines.

24 We can absolutely do it. And what I'll tell you  
25 is that a lot of times, the retailer doesn't like that

1 answer when we come in and we'll quote a size that doesn't  
2 come off that automated equipment, but the retailer doesn't  
3 understand why it might cost more than the next size up or a  
4 slightly different product that does come off the automated  
5 lines. So that's one part of it is strictly price.

6 The other thing I will mention is that given  
7 appropriate time and the desire, a commitment from the  
8 retailer, we can automate obviously to do different things.  
9 As we showed with Lowes and in our ability to develop the  
10 Kobalt line, we can do -- we can partner with that retailer  
11 to do different things than what we're we do today. We're  
12 not locked in on specifically what we can do this moment.

13 COMMISSIONER BROADBENT: Mr. Nictakis, did you  
14 have something to say?

15 MR. NICTAKIS: Yeah, let me just add to that.  
16 We bid -- we'll bid on everything and anything. The  
17 challenge we have is if it's not made in our core products,  
18 then or costs are going to be too high. And we've done  
19 business enough with some of the buyers that they'll  
20 actually sort of preempt us and say, well, we want a 26 a  
21 40, and a 32. I know you don't do 32 on your current  
22 equipment, so just bid on the 40 and the 26. So we get that  
23 kind of feedback because they start to know us, and you  
24 know, we tell the story of why we're so good on these and  
25 why we're not automated and they're going to be more

1 expensive on the others.

2 So we do get that kind of dialogue going,  
3 because we -- you know or sales team has called on the same  
4 people for a number of years with many of the accounts.

5 COMMISSIONER BROADBENT: But you're pretty  
6 limited that it has to be an automated part of your  
7 production?

8 MR. NICTAKIS: Not -- it's -- I think to be cost  
9 competitive, with the Vietnamese and Chinese imports, it's  
10 going to be on the automated equipment. We can make  
11 anything. We struggle to be -- to win businesses when we're  
12 using or automated equipment given the amount of dumping  
13 that's going on.

14 So when we have to go and be more manual, you  
15 know, we know what that answer's going to be. We'll still  
16 go after it, the buyers by now sort of know that though and  
17 they typically, they start self-selecting us out first as  
18 having us bid on things. So they know aren't coming off  
19 that automated, you know, there's three or four automated  
20 lines.

21 MR. LISS: If I could just add, it's Mitch Liss  
22 from MBI. We aren't challenged by this -- any kind of an  
23 automation thing. And you know, basically, we're going out  
24 of business. We're bidding on everything. We -- on  
25 everything, every single offer to supply, we have responded

1 to. And in virtually every case, with a few exceptions  
2 recently, we've been told our price is too high.

3 To Mr. Rosenthal's point, we have tremendous  
4 capacity. We -- to the same points we're talking about,  
5 given a little bit of time and by a little bit, it could be  
6 just a month or two to be able to further ramp up. We could  
7 produce tenfold, twentyfold what we're currently producing.

8 So there's lots of ability. Our team wants to  
9 do it. We certainly want to survive and not go out of  
10 business. And it's for us. There aren't any obstacles in  
11 terms of equipment or people or processes. It's just price  
12 for us.

13 MS. CANNON: Kathy Cannon. I know your time's  
14 almost up. I just want to make sure this is very clear.  
15 The automation that Waterloo has undertaken over the last  
16 number of years has been in an effort to compete with  
17 foreign producers who are not nearly so automated. They do  
18 lots of things manually, but they just sell it for absurdly  
19 low prices.

20 The point that Mr. Rosenthal was making about  
21 these dumping margins is that when you actually cost up how  
22 much it costs for them to produce the product and compare it  
23 to the prices, which is what Commerce has done, you're  
24 getting 100 percent, 200 percent dumping margins. That's  
25 what their costs should be. That's what their costs would

1 be.

2 So that's why they've tried to automate. They  
3 could do it manually. We have plenty of lines that are  
4 manual at Waterloo, as does MBI, but nobody would pay for  
5 that.

6 So what it does is it forces Waterloo to try to  
7 look at where they could be cost competitive by doing as  
8 much automation as they can and trying to focus on that,  
9 because that's the only place they can be price competitive.

10 They're happy to bid on any line. They could  
11 bid on 32 inch. They can bid on any customized model. They  
12 could make that in their facility. So it's not an inability  
13 to do it. It's an inability to do it at the price points.

14 So when they don't bid on something, it's  
15 because they've been told by the retailer you're not going  
16 to be cost competitive on that. You're going to be cost  
17 competitive here. And even there as you see from the  
18 confidential documents, they're still losing business on  
19 their highly automated efficient lines because the price is  
20 still not low enough.

21 So it is not an inability at all. It's simply  
22 that they focused on where they can most efficiently do  
23 something in an effort just to get their foot in the door.  
24 And even then, they're losing out to the dumped prices.

25 COMMISSIONER BROADBENT: But I think as the

1 market's changing, the imports are able to offer a more  
2 specialized customized product. And you all seem to have a  
3 rigidity here. And just --

4 MS. CANNON: And that's -- right. That's what I  
5 want to make sure you are not -- you understand is not true.  
6 We do not have an inability to make any of those products.  
7 That innovation slide, we make all of that. We make any  
8 size. We can do whatever they want. We are not turning  
9 down business because we say you want a 52 inch with all  
10 these bells and whistles and we're not going do it. We're  
11 saying we can do it. Do you want to pay double what you're  
12 paying from the import? Look at the margins of  
13 underselling. That's how much they would have to pay. And  
14 then the conversation stops. Then they don't want to talk  
15 about it.

16 MR. LISS: And further, Mitch Liss again from  
17 MBI, there is absolutely no obstacle on our part as a  
18 domestic producer. If you wanted a 36.25 inch, we could do  
19 that, because we -- and any of us could do it given time.  
20 But we could do it because of our process, we could do it  
21 right now. So there is no rigidity on our part.

22 And I would point to one of the huge product  
23 innovations we had. We had one major retailer come to us  
24 and ask for glass front drawers. And we developed that for  
25 them in a very compressed time frame and launched it. So



1 we're open to any business on tool boxes.

2 COMMISSIONER BROADBENT: Okay, my time's really  
3 gone over. Thank you.

4 CHAIRMAN SCHMIDTLEIN: Okay. Thank you. Mr.  
5 Stremmel, I wanted to go back to the conversation about the  
6 purchase by Stanley Black and Decker of the Waterloo. And  
7 your title is global metal storage operations leader. Can  
8 --

9 MR. STREMMEL: Yeah.

10 CHAIRMAN SCHMIDTLEIN: Can you remind me, what  
11 exactly does that entail?

12 MR. STREMMEL: So all of the -- great question.  
13 All the metal storage facilities around the world, I have  
14 responsibility for those.

15 CHAIRMAN SCHMIDTLEIN: So all of SBD's owned  
16 facilities --

17 MR. STREMMEL: Correct.

18 CHAIRMAN SCHMIDTLEIN: -- producing metal  
19 storage operations?

20 MR. STREMMEL: That's correct, yes.

21 CHAIRMAN SCHMIDTLEIN: Okay. And I think you  
22 testified that you all have purchased Waterloo because you  
23 -- Stanley Black and Decker did not make, and correct me if  
24 I'm wrong, maybe I -- because I don't have your written  
25 testimony in front of me.

1 MR. STREMMEL: Yeah.

2 CHAIRMAN SCHMIDTLEIN: You did not make this --  
3 the in scope, the retail what we call the retail --

4 MR. STREMMEL: That's correct, yeah.

5 CHAIRMAN SCHMIDTLEIN: -- the test?

6 MR. STREMMEL: So prior to July, end of July, we  
7 only made industrial tool boxes.

8 CHAIRMAN SCHMIDTLEIN: You only made industrial  
9 tool boxes?

10 MR. STREMMEL: Correct.

11 CHAIRMAN SCHMIDTLEIN: Okay. So and what brand  
12 -- do you sell those under Stanley Black and Decker brand?

13 MR. STREMMEL: There's multiple brands that we  
14 sell under. Mac would be one. Vidmar, Lista, Facome,  
15 InnerSpace.

16 CHAIRMAN SCHMIDTLEIN: Okay.

17 MR. STREMMEL: There's quite a few brands that  
18 we sell under.

19 CHAIRMAN SCHMIDTLEIN: Okay. And were you  
20 selling the retail version of this, too, under one of those  
21 brands?

22 MR. STREMMEL: Not the industrial.

23 CHAIRMAN SCHMIDTLEIN: Even though you don't --  
24 then even though you don't make it?

25 MR. STREMMEL: Yeah, so we purchase from

1 Geelong.

2 CHAIRMAN SCHMIDTLEIN: You purchase from  
3 Geelong, oh, okay.

4 MR. STREMMEL: Yeah, yeah.

5 CHAIRMAN SCHMIDTLEIN: So prior to purchasing  
6 from -- prior to buying Waterloo, you all were selling?

7 MR. STREMMEL: Currently.

8 CHAIRMAN SCHMIDTLEIN: And what brand was that?  
9 Oh, and currently.

10 MR. STREMMEL: Yeah.

11 CHAIRMAN SCHMIDTLEIN: Okay, and what brand do  
12 you sell that under?

13 MR. STREMMEL: Stanley, DeWALT, Porter Cable.

14 CHAIRMAN SCHMIDTLEIN: Is that one brand or  
15 three brands?

16 MR. STREMMEL: I'm sorry, three.

17 CHAIRMAN SCHMIDTLEIN: That's three brands?

18 MR. STREMMEL: Yeah.

19 CHAIRMAN SCHMIDTLEIN: Okay. I don't know all  
20 the brands.

21 MR. STREMMEL: That is -- yeah, no, no, fair.  
22 That is part of the rationale. All right, so our make where  
23 we sell edict of trying to make retail boxes, we didn't have  
24 that ability and capability within the plants. When we  
25 looked at our industrial plants and tried to retrofit the

1 industrial for the retail, we couldn't do it. It was  
2 essentially like starting all over.

3 So we looked at, you know, purchasing. You  
4 know, was a faster route for us and a better route for us  
5 because the expertise that they had and the automation that  
6 they already -- that all right exists in this facility? So  
7 that was one of the big reasons we went with Waterloo.

8 CHAIRMAN SCHMIDTLEIN: So did you participate in  
9 line reviews that Waterloo was participating in prior to  
10 your purchase of this? Were you all ever considering buying  
11 from one of these two producers prior to this?

12 MR. STREMMEL: In my role, I was not.

13 CHAIRMAN SCHMIDTLEIN: You weren't --

14 MR. SALLEE: This is Matt Sallee. I can tell  
15 you that we've been in customer line reviews where we were  
16 as Waterloo competing against Stanley Black and Decker and  
17 some of their brands, yes.

18 CHAIRMAN SCHMIDTLEIN: Okay. You were. Okay,  
19 but Mr. Stremmel, you personally weren't --

20 MR. STREMMEL: I was not personally, no.

21 CHAIRMAN SCHMIDTLEIN: The people reporting to  
22 you weren't?

23 MR. STREMMEL: No, people in the organization  
24 were.

25 CHAIRMAN SCHMIDTLEIN: Were.

1           MR. STREMMEL: We're very price driven, too, in  
2 our decisions. So we sit on both sides of the fence.

3           CHAIRMAN SCHMIDTLEIN: Uh-huh. I see. Okay.  
4 So have you seen this differentiation in price and the --  
5 between the subject imports and the --?

6           MR. STREMMEL: I have not personally seen it. I  
7 mean, we can look to provide stuff in post-hearing brief.

8           CHAIRMAN SCHMIDTLEIN: So do the people who are  
9 involved in these line reviews, do they report to you?

10          MR. STREMMEL: They do not.

11          CHAIRMAN SCHMIDTLEIN: They don't? Oh, okay.

12          MR. STREMMEL: They do not, no.

13          CHAIRMAN SCHMIDTLEIN: So what's the line of  
14 reporting there just to --

15          MR. STREMMEL: Yeah.

16          CHAIRMAN SCHMIDTLEIN: -- clarify for me?

17          MR. STREMMEL: No, we're what we call a very  
18 matrixed organization. So we have operations that kind of  
19 fall into the operations. We have marketing fall under  
20 marketing. Sales under sales. Engineering fall under  
21 engineering. So it would be in the marketing and  
22 development and group that -- and I'm not -- and I'm in  
23 operations.

24          CHAIRMAN SCHMIDTLEIN: I see. So like you're  
25 more responsible for the technical sort of making the

1 operation --

2 MR. STREMMEL: Making the product.

3 CHAIRMAN SCHMIDTLEIN: -- of a plant?

4 MR. STREMMEL: That's correct, yes.

5 CHAIRMAN SCHMIDTLEIN: Okay. Okay. All right,  
6 that's helpful. Okay. In the -- in your confidential  
7 slides that you presented, you've listed a number of the  
8 customers that you all attempted to sell to. Can you put  
9 any documentation of that on the record?

10 MS. CANNON: Yes, we plan to do post-hearing,  
11 yes.

12 CHAIRMAN SCHMIDTLEIN: Okay. That would be  
13 helpful post-hearing.

14 MS. CANNON: Yeah.

15 CHAIRMAN SCHMIDTLEIN: And then, my last  
16 question has to do with the lost sales, lost revenue  
17 information where you've pointed out in your slides the  
18 number of sales that were shifted and that price was lower,  
19 but in that information, none of the purchasers indicated  
20 that the reason for their shift was price. How do you  
21 account for that?

22 MS. CANNON: That was why -- because we were  
23 seeing the disconnect, they weren't -- they said they were  
24 buying it. They said it was lower priced. Then they said  
25 it wasn't for price.

1                   CHAIRMAN SCHMIDTLEIN: Yes.

2                   MS. CANNON: And our testimony, obviously, was  
3 for price. And so in an attempt to try to provide you with  
4 further understanding of that, that was why I gave you the  
5 confidential slide deck. And it was supplemented further in  
6 our brief because we said, well, they've said this in the  
7 context of the case where obviously they don't want duties  
8 imposed, but what were they saying in day-to-day  
9 negotiations? So we looked through the files and records of  
10 emails and other conversations that have gone on and tried  
11 to provide you with the background which always said price.

12                   CHAIRMAN SCHMIDTLEIN: Uh-huh.

13                   MS. CANNON: And that's what we'll try to  
14 supplement further in our brief as well. But I think that's  
15 a little more telling as to what was going on in the market,  
16 those original documents.

17                   CHAIRMAN SCHMIDTLEIN: Okay.

18                   MR. ROSENTHAL: Commissioner Schmidtlein, just  
19 as a matter of perspective in these cases, I'm always amazed  
20 at how many times purchasers admit that price was the  
21 driving force in their purchasing decisions because they  
22 know an affirmative determination by the Commission's going  
23 to raise their costs.

24                   And I think most people try to be honest about  
25 it, but if they can find a way to say, no, it was something

1 else, they will do that. In this particular case, the real  
2 data is the data that is in the slides 22 and beyond where  
3 the record is replete with examples of customers, purchasers  
4 saying, no, we're not buying it because your price is too  
5 high.

6 And they don't put that in the questionnaire  
7 response to the Commission, but that isn't really the most  
8 probative data. That's what was happening contemporaneously  
9 in the marketplace.

10 And you have -- I'm -- you have sworn testimony  
11 here today from people who have talked to these purchasing  
12 agents, who will tell you I've been told price is the  
13 reason. And back to this other issue, sometimes they're  
14 told don't even bother to quote, because we know your prices  
15 are not going to be competitive. And other times, they are  
16 not even given that opportunity because the purchasing  
17 agents go offshore because they know that's where they're  
18 going to get it.

19 So I know when you look at these, I'm delighted  
20 when we're in this cases and I see respondents answered what  
21 I regard as honestly in a product that we know is driven by  
22 price. People go to big box stores because they think they  
23 can get the best prices there. That's why they have those  
24 Black Friday sales.

25 In this particular instance, I would have you



1 focus on slides 22 to 28. And the subsequent information we  
2 will get to you, which we'll provide more specifics.

3 MS. BECK: Also a public one, which is now up as  
4 slide 13 and it also goes to that point, but we will provide  
5 many confidential emails for the record.

6 CHAIRMAN SCHMIDTLEIN: Okay, that would be  
7 helpful. Okay. I don't have any further questions. So we  
8 are back to Vice Chairman Johanson.

9 VICE CHAIRMAN JOHANSON: Thank you, Chairman  
10 Schmidtlein. In its preliminary brief, Sears notes that the  
11 -- Sears noted that "press releases indicate that Stanley  
12 Black and Decker intends to build a 400,000 square foot  
13 manufacturing center in the United States." And this is  
14 located at page 8 of the Sears' brief.

15 Can you speak as to whether this new facility  
16 will produce in-scope or out-of scope tool chests and  
17 cabinets or both? You know, if this is proprietary, I  
18 understand if you could provide that information in the  
19 post-hearing brief.

20 MR. STREMMEL: We would provide that in  
21 post-hearing brief.

22 VICE CHAIRMAN JOHANSON: Okay, I assume that.  
23 Thank you for your response, Mr. Stremmel.

24 MR. STREMMEL: Okay.

25 VICE CHAIRMAN JOHANSON: Have there been any

1 shifts in consumer purchasing preferences over the course of  
2 the period of investigation that would affect the number of  
3 units purchased or would explain a decline in apparent  
4 consumption?

5 MR. NICTAKIS: This is Bill Nictakis. No, the  
6 trend has been towards bigger boxes, you know, bigger sized  
7 boxes, but all of our conversations with customers, what  
8 we've heard in the industry, is that the category is  
9 enjoying modest growth, not a decline. So the data -- what  
10 we here is yeah, we're up a few points, not that it's down.

11 VICE CHAIRMAN JOHANSON: Okay. Thanks, Mr.  
12 Nictakis. And I have just one final question. Could you  
13 all please clarify what is meant by the term truck jobbers,  
14 which you describe on page 14 of your pre-hearing brief?  
15 And could you describe the functions that truck jobbers  
16 perform? When I think of a jobber, I think of like a  
17 wholesaler. Is that correct?

18 MR. NICTAKIS: So this is Jason Stremmel. So  
19 truck jobber, sorry, it would be more of a -- what we would  
20 term a distributor. So a seller, so if you think of  
21 Snap-on, or you think of our Mac tool business, or Matco,  
22 where there -- you see these big trucks and they're driving  
23 out to the car dealerships and mechanics and they're really  
24 -- it's a full service operation that we do.

25 So we go there. We do the one-on-one sell with

1       them. We provide them the tools and storage that they need  
2       that fits their requirements. So the truck jobber is  
3       essentially somebody who would go to your facility with a  
4       truck. We provide a full service operation. It's a zero --  
5       really zero touch for the consumer. So we go directly to  
6       the consumer versus going through retail. And it is that --  
7       it's essentially that's what that means.

8                   VICE CHAIRMAN JOHANSON: Okay. Thank you, Mr.  
9       Stremmel. That -- oh, I'm sorry?

10                  MR. NICTAKIS: This is Bill Nictakis. I'll just  
11       add on that. They tend to be independent operators. They  
12       buy a territory or rights to a territory. Cornwell or  
13       Snap-on or Mac will sell them product that they in turn go  
14       out and sell to mechanics, you know, to professionally  
15       install it and all of that. So they are there typically  
16       independent, not company-owned.

17                  VICE CHAIRMAN JOHANSON: Thanks Mr. Nictakis.  
18       And that concludes my questions. I'd like to thank all of  
19       you for appearing here today.

20                  COMMISSIONER WILLIAMSON: Okay, thank you. Just  
21       a few additional questions. Mr. Nictakis, earlier in your  
22       response for a question from Commissioner Broadbent, you  
23       stated I believe -- I think you stated that you believe that  
24       your automatic lines were more cost-effective for certain  
25       products than others and that affected what you bid on. So

1 is it -- is this a function of the volume capacity of your  
2 automated equipment, the cost of the dyes, and what dyes you  
3 currently have already bought or are there other factors?

4 MR. NICTAKIS: Sure. It doesn't impact what we  
5 bid on, because we're going to bid on anything that comes  
6 our way. It impacts what we have a realistic chance of  
7 winning is what I would tell you.

8 And we chose years ago to automate certain  
9 dimensions of product, based on where the consumer was. And  
10 we've been able to expand that from smaller to bigger boxes  
11 in concrete increments.

12 COMMISSIONER WILLIAMSON: Uh-huh.

13 MR. NICTAKIS: When we get a bid, if we can make  
14 it on one of these lines, we feel really good, because even  
15 with the extremely low prices, we feel we should have a  
16 pretty good shot.

17 Now I've been shocked since we bought the  
18 company that we've lost those, because I would have, you  
19 know, we did our math and thought we would win, but even  
20 with that, we struggled.

21 But it doesn't impact when we get a bid, hey, we  
22 can make it here. We know our price is going to be better  
23 than if we have to make it manually, but we have capacity.  
24 We have access to more people that we could add to do our  
25 manual operation. Chances of costs are just going to be

1 higher, right? And we're having trouble competing -- using  
2 -- are more automated. When we go manual, we're really  
3 going to be high.

4 COMMISSIONER WILLIAMSON: Okay, but what  
5 determines the answer to the question, can we make it  
6 automatically? Is it the volume?

7 MR. NICTAKIS: It's the width. No, it's purely  
8 the dimensions that the customer -- you know, the customer  
9 sets the specs and it's going to be dimensions of the  
10 cabinet or the chest. Our equipment's set up to make a 26  
11 inch or a 40 or a 52. And some of the equipment is not  
12 changeable. So you can't go -- we'll make a 32 instead. So  
13 I can't do it on that equipment. It's hard tooled. I have  
14 to go and do it manually.

15 COMMISSIONER WILLIAMSON: So it's not a volume  
16 question. It's really more -- yeah.

17 MR. NICTAKIS: I --

18 COMMISSIONER WILLIAMSON: But it would --

19 MR. NICTAKIS: It would be a volume -- it could  
20 be -- here's what I would tell you. We would be open to  
21 investing in additional if a customer was willing to make a  
22 commitment, right?

23 COMMISSIONER WILLIAMSON: Okay.

24 MR. NICTAKIS: No problem. Our former investors  
25 and I'm sure Stanley now would do that.

1                   The challenge we've had is we've gotten  
2                   business, proven it out, and time and time again, have seen  
3                   it, shopped over to China or Vietnam because they're  
4                   cheaper. So they -- we're sort of the great test market.  
5                   Once it works, they go and shop us out. So that's one of  
6                   the limiters for us in terms of, well, we can't really  
7                   invest because boy, we're going to get shopped out overseas  
8                   and we're going to have to compete against dumped prices and  
9                   we're going to lose.

10                   COMMISSIONER WILLIAMSON: What role is the cost of  
11                   the dyes, or whether or not you currently have a particular  
12                   dye?

13                   MR. NICTAKIS: The dye is easy. You know, we  
14                   would never--the dye is \$30- to \$50,000. It's more of the  
15                   automated welding, which is a 60-foot or 100-foot, twell  
16                   arms going in, now you're talking seven figures.

17                   MR. STREMMEL: If I could add--this is Jason  
18                   Stremmel--if I can add to that, I can tell you with a  
19                   tremendous amount of experience in this area, if there is  
20                   volume we automate. There is not--so the question of  
21                   whether or not we can do it shouldn't even be on the table.  
22                   We can do it. The question is: Do we have the commitment  
23                   from the retailer? Do we have the commitment that says that  
24                   we'll give you this volume? And if so, we'll automate it.  
25                   That has been the struggle, of getting that commitment,

1 because the automation capability is there. The  
2 organization has been committed to it and continues to be  
3 committed to automation if the volume is there.

4 MR. SALLEE: This is Matt Sallee. Just one thing  
5 to add to that. I would encourage us to think about,  
6 there's different ways to define automation as well. I just  
7 want to be clear that when we're talking about automation at  
8 Waterloo, we're talking about the ability to set up and run  
9 thousands of something at the same time.

10 We also have flexible equipment that you could  
11 define as automation, as well, world-class flexible  
12 equipment that allows us to do different things in a more,  
13 we say "manual" because we have this big comparison between  
14 these things that are set up to do thousands, and flexible  
15 equipment that are set up to do smaller numbers. But we  
16 also have world class flexible equipment as well. And that  
17 allows us to make different things.

18 COMMISSIONER WILLIAMSON: Okay, thank you. To the  
19 extent that you haven't already addressed the question, in  
20 the posthearing brief please respond to the arguments set  
21 forth by Home Depot in Section 3 of its prehearing brief.

22 This gets to the question about what skews do you  
23 go and bid for. And they make some points in that section.  
24 So posthearing you can address those, if you haven't already  
25 done so.

1 MS. CANNON: Yes. We'll be happy to do that.

2 COMMISSIONER WILLIAMSON: Okay, thank you. Do  
3 your supply agreements with large customers require you to  
4 reserve capacity for those customers? And if so, how does  
5 this affect your ability to compete for other opportunities  
6 in the market?

7 MR. NICTAKIS: I would love to have to reserve  
8 capacity. I have so much idle capacity, that's not even  
9 something I would contemplate having an issue on.

10 COMMISSIONER WILLIAMSON: Okay. Did you want--

11 MR. LISS: Similar to Mr. Nictakis, we don't--no,  
12 we don't have any supply agreements that require holding  
13 capacity, at all.

14 COMMISSIONER WILLIAMSON: Okay, thank you.

15 And, Mr. Stremmel, you've repeated a number of  
16 times, "we make it where we sell it." That's your goal?

17 MR. STREMMEL: I mean--go ahead.

18 COMMISSIONER WILLIAMSON: The thing is, I don't  
19 think I've heard anybody sort of say that, or seriously  
20 meant it, so I thought if you could expand on that for me.

21 MR. STREMMEL: Sure. Stanley Black and Decker has  
22 many, many plants in the United States, and we're committed  
23 to manufacturing in the United States. Our edict--I say  
24 "edict," but it's a very common phrase within our  
25 organization, to "make where we sell."



1                   So if we sell in Europe, we make it in Europe.  
2                   If we sell in Asia, we make in Asia. If we sell in the  
3                   United States, we make in the United States. So that is our  
4                   global philosophy from an ops perspective with the business  
5                   unit to look at where we make product and where we design  
6                   product and how it's--essentially how we go to market.

7                   COMMISSIONER WILLIAMSON: Has that been a  
8                   long-standing strategy?

9                   MR. STREMMEL: It's very--I mean we just announced  
10                  we're opening another facility in North Carolina, right? So  
11                  it is something that we've embraced for a long time, and  
12                  will continue to embrace.

13                  COMMISSIONER WILLIAMSON: Thank you. I just  
14                  wanted some clarification. I have no further questions.  
15                  Thank you for the answers.

16                  CHAIRMAN SCHMIDTLEIN: Alright, I think that's--do  
17                  you have any further questions?

18                  (No response.)

19                  CHAIRMAN SCHMIDTLEIN: Does staff have any  
20                  questions for this panel?

21                  MR. CORKRAN: Douglas Corkran, Office of  
22                  Investigations. Thank you, Madam Chairman. Staff has no  
23                  additional questions.

24                  CHAIRMAN SCHMIDTLEIN: Thank you. Do Respondents  
25                  have any questions for this panel?

1 (No response.)

2 CHAIRMAN SCHMIDTLEIN: No? Okay, thank you very  
3 much.

4 Alright, that brings us to the lunch hour. So we  
5 will reconvene at 1:30. We will take a one-hour lunch. Let  
6 me remind you that the hearing room is not secure, so please  
7 take your confidential information with you, and we will see  
8 you back here at 1:30. We stand in recess.

9 (Whereupon, at 12:30 p.m., the hearing was  
10 recessed, to reconvene at 1:30 p.m., this same day.)

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1                   A F T E R N O O N   S E S S I O N

2                   MR. BISHOP: Will the room please come to order.

3                   CHAIRMAN SCHMIDTLEIN: Good afternoon. Mr.  
4 Secretary, are there any preliminary matters?

5                   MR. BISHOP: Madam Chairman, I would note that  
6 the panel in opposition to the imposition of anti-dumping  
7 and countervailing duties have been seated. All witnesses  
8 on this panel have been sworn in. This panel has 60 minutes  
9 for their direct testimony.

10                  CHAIRMAN SCHMIDTLEIN: Okay. Alright, Mr.  
11 Spooner, you may begin when you're ready.

12                  MR. SPOONER: Thank you, Madam Chairman,  
13 Commissioner Johanson. We will actually begin with Mr.  
14 O'Brien of Baker McKenzie and Ms. Boyle of Sears.

15                  MR. O'BRIEN: Good afternoon, Madam Chairman.  
16 I'm Kevin O'Brien from Baker & McKenzie and I just want to  
17 introduce our team. On my far left is my colleague from  
18 Baker & McKenzie, Christine Streatfeild and on my immediate  
19 left is Ms. Kelly Boyle from Sears, and Ms. Boyle will now  
20 address the Commission.

21                  STATEMENT OF KELLY BOYLE

22                  MS. BOYLE: Good afternoon, Madam Chairman and  
23 Commissioners. I'm Kelly Boyle for Sears Holdings. I've  
24 been with Sears for just over six years now and I'm  
25 currently the Craftsman Product Manager. At this capacity,

1 I lead the product development, sales and management for the  
2 Craftsman brand, which include the sourcing and sales of the  
3 tool chest at issue here.

4 In my previous roles at Sears, I've also been a  
5 member of the Merchant Team, with buying experience for tool  
6 chests and cabinets at well. Sears is headquartered in  
7 Hoffman Estates, Illinois and we have roughly 1,000 U.S.  
8 locations, employing tens of thousands of U.S. workers.

9 Until earlier this year, Sears owned the  
10 Craftsman brand, which we registered as a trademark in 1927  
11 and have been proudly selling ever since. Under the sales  
12 agreement with Stanley Black & Decker, Sears received a  
13 perpetual license to the continued use of the Craftsman  
14 brand, including its use on tool chests and cabinets.

15 In May of this year, my colleague, Tom Arvia  
16 testified in the preliminary phase of these investigations.  
17 He emphasized two points, the long history that Sears and  
18 Craftsman have with marketing and selling tool chests in the  
19 U.S. and our strong ties to the Petitioner, Waterloo. I  
20 would like to build on Tom's testimony today, emphasizing  
21 our partnership with Waterloo and describing how that  
22 partnership has faced changes since 2014, none of which  
23 having to do with the pricing of Chinese or other imported  
24 tool chests.

25 Waterloo has been our close partner in our sales

1 of tool chests and other products for more than 70 years.  
2 Together, we have successfully supplied the U.S. market  
3 under the Craftsman brand, delivering high quality product.  
4 Sears has always considered Craftsman as synonymous with  
5 product differentiation, quality, performance, and  
6 durability. Our success in delivering products that meet  
7 this high standard no doubt contributed to Stanley Black &  
8 Decker's interest in acquiring the rights to the brand  
9 earlier this year. But the Commission should also recognize  
10 that there are important exceptions to the generally  
11 positive Waterloo/Sears relationship.

12           There have been times when Waterloo could not  
13 provide the products that we requested and required. We  
14 have examples of this throughout the investigation period at  
15 issue here and as recently as this year and extending into  
16 2018. Tom Ovia testified at the preliminary conference  
17 about what happened in 2016 when Craftsman identified  
18 certain product features that we wanted to launch in time  
19 for our peak selling season, that season being the last six  
20 to eight weeks of the calendar year.

21           We discussed these products with Waterloo and  
22 provided Waterloo with an opportunity to quote. Waterloo  
23 advised Sears and Craftsman that it would not pursue this  
24 opportunity on these items that were critically important to  
25 our assortment. Waterloo referenced this situation this

1 morning. Notably, they said nothing about price influencing  
2 their decision. These were not low price product offerings.  
3 In fact, they were differentiated, innovative products at  
4 mid to high price points. We were not comparing quotes  
5 from Waterloo with other supplies. Waterloo did not quote  
6 the products at all. Sears did launch this product last  
7 year, as planned, but Waterloo excluded itself as a  
8 potential partner for those products.

9           This year we have another example of Waterloo  
10 not being able to deliver product or committing to a  
11 production schedule that allows Sears to meet the demand  
12 that we have recognized in the market. We submitted  
13 evidence of this in our pre-hearing brief, Exhibit 3.

14           With respect to each of the above examples, it  
15 is important to recognize the difference between the  
16 potential to innovate versus the speed to market of  
17 innovative products. In the two examples I just cited, time  
18 to market has been a highly important consideration to meet  
19 buying seasons. In both cases, Waterloo has been incapable  
20 of meeting the timelines that Sears required.

21           The second major point to be recognized involves  
22 stainless steel tool chests, which are important items for  
23 Sears. During this period of investigation Waterloo made  
24 the decision to close its production facility in Nogales,  
25 Mexico, which is where they manufactured stainless steel

1 products. Since that closure, Waterloo has not offered any  
2 alternatives to manufacture stainless products to Sears. To  
3 maintain our product line assortment, we secured alternate  
4 sourcing in China for stainless products which represent a  
5 large percentage of our imports today.

6 We would like nothing better than for Waterloo  
7 to resume supply of stainless steel units. Our decision to  
8 source from China has nothing whatsoever to do with lower  
9 pricing. In short, the vast majority of the volume that you  
10 see in Sears's importer questionnaire was the result of our  
11 need to fill gaps in our assortment. It is simply not true  
12 to conclude that Sears made its sourcing decisions based on  
13 price. The vast majority of our business remains with  
14 Waterloo where we have a vested interest in Waterloo's  
15 success and our ongoing partnership. We appreciate this  
16 relationship, but where Waterloo is not an option, we have  
17 had to look elsewhere.

18 We think these facts are important for the  
19 Commission to understand. Sears asks the Commission to  
20 consider our experience in assessing any claims to financial  
21 injury caused by imports and to reach a negative  
22 determination here. Thank you.

23 MR. SPOONER: Thank you, Commissioner. We'll  
24 now turn to Jamie Enger of Jenger, LLC, which serves as the  
25 sales arm for Geelong in the United States.

1 STATEMENT OF JAMIE ENGER

2 MS. ENGER: Thank you, Honorable Commissioners  
3 for having us here today. My name is Jamie Enger and I am  
4 President of Jenger, LLC, a family-owned company based in  
5 Illinois that has long been part of the U.S. tool chest  
6 industry. My father and I are both shareholders in Geelong,  
7 the largest seller of tool chests and cabinets for the U.S.  
8 market. My father is with me today. He is one, if not the  
9 most experienced individual in the steel tool storage market  
10 with nearly 30 years in the industry. We more lovingly  
11 refer to him as the tool chest dinosaur as no one has a  
12 longer history in the business than him.

13 We're both well versed on the manufacturing side  
14 of the business and know the U.S. market perhaps better than  
15 anyone. After all, we have spent years working with  
16 purchasers to design tool chests that meet customer  
17 expectations. We've both spent way more time on the road  
18 away from family than we'd like, but we love our niche and  
19 working hard to serve our tool storage partners.

20 I should probably begin with a brief word about  
21 Geelong. Geelong may have a Chinese ring to it, but it is  
22 actually a town in Australia outside of Melbourne. The  
23 company was founded in 1987 by a resident of Geelong,  
24 Australia. When he passed away unexpectedly several of us  
25 who were involved in the company banded together to buy



1 Geelong to keep the company we'd worked so for going.

2           Alistair Hanson-Currie, who grew up in the UK  
3 and is with us today, moved to Hong Kong and manages the  
4 factory. We take great pride in working together to provide  
5 a topnotch, innovative product to customers, not only in the  
6 U.S., but in Australia, Europe, Canada, and Mexico as well.  
7 Because, collectively, we believe we know the market better  
8 than anyone else we want the Commission to understand what  
9 is really going on here.

10           I'd like to focus on two things. First, we want  
11 to make what I hope is a painfully apparent point regarding  
12 causation. Waterloo hitched its wagon to Sears's years ago.  
13 It is common knowledge in the industry that Waterloo sells  
14 the great majority of its output to Sears. So as Sears  
15 continues to sink, so has Waterloo and its products. We  
16 frankly don't see Waterloo as much of a competitor.  
17 Customers tell us all the time that Waterloo's products  
18 don't meet their quality standards and that Waterloo  
19 doesn't have the capacity or the innovation to be a  
20 supplier.

21           I hope it's evident that Sears's woes and  
22 Waterloo's parallel failure to invest and innovate have  
23 caused Waterloo's troubles. But if you're not convinced on  
24 causation, I'd also like to discuss some serious  
25 domestic-like product issues. I'll engage in a little

1 product Show 'n Tell to demonstrate how the scope is  
2 artificially gerrymandered so as to exclude products that  
3 directly compete with in-scope merchandise.

4 First, Sears's impact on Waterloo and Waterloo's  
5 failure to successfully pursue new customers, Waterloo has  
6 for years relied upon Sears for an overwhelming majority of  
7 its sales and we all know what happened to Sears in recent  
8 years. Sears shuttered 17 percent of its stores during the  
9 period of investigation and announced more store closures  
10 just this month. Recent news stories report that Sears's  
11 vendors are asking for pre-payment as they are scared of  
12 never getting paid. A company that decisively hitched its  
13 wagon to Sears will have suffered along side with Sears.

14 Waterloo has a history of sticking with Sears  
15 while foregoing opportunities to partner with other  
16 customers. My dad experienced this first-hand many years  
17 ago and I'll let him convey that story to you.

18 STATEMENT OF JOHN FISCUS

19 MR. FISCUS: John Fiscus, Commissioners thank  
20 you. Yes, at that time I was with a U.S. tool storage  
21 manufacturer by the name of Stack-On Products. We were  
22 selling Wal-Mart a few promotional items and Waterloo had  
23 the core basic business. While we had a great relationship  
24 with the Wal-Mart merchants, they'd often stated we would  
25 never get the core Waterloo business.

1                   Well, as we all know, nothing stays the same. I  
2                   received a call one day from Wal-Mart headquarters involving  
3                   me Waterloo had decided to immediately quit selling their  
4                   product to Wal-Mart. Waterloo's rationale they just didn't  
5                   want to create a possible conflict with Sears. Maybe that's  
6                   a sign of things to come, who knows.

7                   So our factory ramped up and began shipping  
8                   products shortly thereafter. We supplied existing product,  
9                   plus new and innovative items all made in the U.S.A., sales  
10                  soared. Wal-Mart was so pleased with our efforts and the  
11                  significant sales increases, especially due to the new,  
12                  innovative type products we created. We were award hardware  
13                  supplier of the year.

14                  To conclude or draw a conclusion, I don't  
15                  believe we would have ever had the opportunity to sell  
16                  Wal-Mart basic items had Waterloo decided to think outside  
17                  the box. Thank you.

18                  MS. ENGER: Thanks dad. It's also very  
19                  important to note that the Home Depot in its pre-hearing  
20                  brief writes that Waterloo was not able or willing to supply  
21                  the Home Depot's products. Much of the Home Depot's brief  
22                  is redacted, but I would urge the Commission to please read  
23                  it very carefully. The Home Depot represents our largest  
24                  and fastest growing customer. As such, the Home Depot's  
25                  experience with Waterloo is vital to any analysis of this

1 case.

2                   Meanwhile, as Sears tried to resonate with  
3 customers, Waterloo failed to keep pace. At the staff  
4 conference, Tom Ovia of Sears testified that despite its  
5 decades long relationship with Waterloo Sears was forced to  
6 look elsewhere for product after Waterloo failed to bid on  
7 certain lines, not low-priced offerings, but more innovative  
8 mid and high-priced point items. We were not in a situation  
9 where Waterloo had a quote that uncompetitive he said. They  
10 just didn't provide a quote.

11                   Indeed, Sears and Home Depot account for the  
12 majority of U.S. tool chest sales. For them, innovation is  
13 key and Waterloo failed to innovate. I listened to  
14 Petitioner tout a press release in which Lowe's recently  
15 said that Waterloo was innovative. This press release is  
16 apparently from outside the Commission's POI, but  
17 regardless, I can only wonder what on earth were the  
18 criteria for this Lowe's award. It's got to be like my  
19 daughter's soccer game where everyone gets a trophy.  
20 Waterloo, frankly, has a reputation for being the least  
21 innovative producer.

22                   I'd ask you to look at the slide up on the  
23 screen. On this slide you will see a comparison of  
24 Waterloo's current offering at Lowe's to the Waterloo  
25 offering at Sears. They're the same. It's not new or

1 innovative. Many of the new items at Lowe's have been  
2 around at Sears for a decade.

3 Slide 2 shows a series of Black Friday ads, a  
4 key selling point in our industry going back almost 10 years  
5 for Waterloo products at Sears. Again, you'll see  
6 Waterloo's offerings failed to change. They failed to keep  
7 up with rapidly changing consumer demand for new design and  
8 color features. Not until 2016 on Slide 3 do they introduce  
9 a newer styled product, which is a replicate of the features  
10 found in Husky branded products that have been available for  
11 years.

12 Conversely, on Slides 4 and 5, you'll see that  
13 the Home Depot, Lowe's, and Menard's offered fresh, new,  
14 innovative products that included taller tills with  
15 integrated power ships for power tool storage. Common tool  
16 cabinets were turned into versatile work stations with  
17 adjustable wood tops and peg boards for quick access tools  
18 and unique color options. I think it's also incredibly  
19 important to note that Stanley Black & Decker is still  
20 purchasing in-scope product from us, Geelong, because  
21 Waterloo is not able to produce it.

22 Product range and flexibility is paramount in  
23 this market, which is why we offer 4,000 skews. Waterloo  
24 hugs Sears tightly will not create innovative products. It  
25 is unsurprising that the decline in Sears's business

1 fortunes has naturally had a negative impact on Waterloo.

2           If the Commission is unconvinced with respect to  
3 causation, it is important, frankly, that the Commission  
4 fully understands the domestic-like product. The scope of  
5 the petition distinguishes between in-scope retail tool  
6 chests and out-of-scope industrial chest. Petitioners claim  
7 that so-called retail and industrial chests have different  
8 physical characteristics and uses, are not interchangeable,  
9 have different channels of distribution, are perceived  
10 differently by customers, require different production  
11 processes and employees, entail different prices.

12           Mr. Nictakis went so far at the staff conference  
13 as to say that traditional retailers don't sell industrial.  
14 This is absolute nonsense. Over here we brought some  
15 samples. The first one is a 66.3-inch wide tool chest.  
16 It's an out-of-scope so-called industrial tool chest; yet,  
17 it is the Home Depot's number one selling product online and  
18 has been since 2014. It has rave reviews. Overall, our  
19 E-Commerce business is blossoming. Traditional retailers  
20 don't sell industrial? Retail and industrial products have  
21 different channels of distribution? The Home Depot's  
22 number one seller is an excluded industrial product.

23           Now it asks you to look at these two 56-inch  
24 wide tool chests. You've got the red one and then the black  
25 one behind it. One of these items is a Husky brand that had

1       been sold at the Home Depot and the other is a U.S. General  
2       item being sold at another retailer, Harbor Freights. One  
3       is an in-scope product and the other is out-of-scope. I  
4       challenge you to find the difference. It certainly isn't  
5       night and day, as Mr. Stremmel with Stanley Black & Decker  
6       claimed.

7                        Petitioners claim these two chests have  
8       different physical characteristics and uses, are not  
9       interchangeable, and are perceived differently by customers.  
10      As an expert in this business, I just don't get it. We make  
11      a wide variety of Husky in-scope retail products and handle  
12      all customer service calls for them at our Illinois office.  
13      I can tell you that multiple times per week we get phone  
14      calls from users, from factory, shop, and automotive  
15      industries that buy one or usually multiple units looking  
16      for extra keys for different locks. There's no question  
17      that so-called retail-typed product is being used by  
18      professionals, not just homeowners.

19                      Finally, it asks you to look at this smaller,  
20      yellow tool chest in the marketing material located on page  
21      8 -- slide 8. This is a product made by Waterloo. As you  
22      can see, it's marketed as an industrial chest right on the  
23      website and bears the emblem of Caterpillar or CAT. CAT is  
24      the world's leading manufacturer of construction and mining  
25      equipment. This unit is flimsy and tinny, in-scope, is sold

1 at retail, but connotes use for industrial settings.  
2 Meanwhile, I assure you we make both in-scope retail and  
3 out-of-scope industrial products at the same facility.  
4 Geelong has only one facility, using the same employees for  
5 the production of all types of tool chests. Waterloo in the  
6 staff conference admitted that it makes both industrial and  
7 retail at its facility too.

8 In the trade, it is clear the owners of Waterloo  
9 created a fake definition of industrial products. A  
10 definition with no reality in the marketplace in an almost  
11 comical attempt to carve out companies such as Snap On,  
12 Matco, and Mat Tools from the domestic industry. The size,  
13 dimensions, and physical characteristics outlined in the  
14 scope have absolutely no basis in practice or industry  
15 standards. I would ask the Commission not to fall for it  
16 and to consider all of this in light of the Petitioners'  
17 filing, which was in the midst of an effort by Waterloo's  
18 New York private equity owners solely to maximize profits in  
19 their sale of Waterloo to Stanley Black & Decker.

20 Thank you for your time today and for the  
21 opportunity to discuss the tool chest and cabinet market.  
22 We want the Commission to make a truly informed and educated  
23 decision about this category. I hope our experience,  
24 insight, and information is helpful and we, of course,  
25 welcome your questions. Thank you.



1 STATEMENT OF ALISTAIR HANSON-CURRIE

2 MR. HANSON-CURRIE: Good afternoon, Madam  
3 Chairman, Honorable Commissioners and Commission staff. My  
4 name is Alistair Hanson-Currie. I'm the Business  
5 Development Director at Geelong.

6 As Jamie explained, I manage Geelong's  
7 production activity. I grew up in the UK and moved to Hong  
8 Kong, China after studying law and engineering and obtaining  
9 an MBA from Cambridge University.

10 Jamie's done an excellent job explaining the  
11 actual products and real market conditions. I have only a  
12 few points to add, but primarily traveled here to answer any  
13 questions you may have about Geelong's factory and plans for  
14 production.

15 As Jamie explained, Geelong is a privately-owned  
16 company, is run by many of us from England and the U.S. We  
17 operate Geelong using Western business management and  
18 practice efficiency, continues product innovation, attention  
19 to our customers' needs so that we can quickly respond to  
20 the demands of the brands we supply. My role is  
21 cooperations in the factories, including legal matters,  
22 sales in Australia and Europe, including management sale,  
23 colleagues in these markets, recruitment, factory audits, IT  
24 infrastructure and development, identifying new product  
25 opportunities and strategic opportunities.

1           I, therefore, have in depth experience of the  
2 overall market demands for Geelong's products and Geelong's  
3 product research, development, and design efforts. If I can  
4 stress one key thing it's our company's institutional  
5 commitment to product innovation. Geelong produces more  
6 than 4,000 different steel storage products, including tool  
7 chests and cabinets at our factory in China. We have an  
8 on-site R&D facility, a top rate product showroom at our  
9 production facility to help us work closely with customers  
10 and potential customers to enable us to develop,  
11 feature-rich, innovative products.

12           Again, we thought it was important to have a  
13 factory manager here today to respond to any questions the  
14 Commission may have about our company's operations and I'm  
15 happy to answer those questions. We greatly appreciate the  
16 Commission's thoughtful consideration of this case. Thank  
17 you.

18           STATEMENT OF BRUCE MALASHEVICH

19           MR. MALASHEVICH: Good day, Madam Chairman,  
20 members of the Commission. I'm Bruce Malashevich, President  
21 of Economic Consulting Services, LLC. I'm serving as  
22 economic expert to counsel for Respondent Geelong in this  
23 investigation.

24           Petitioners pre-hearing brief contains some  
25 extraordinary assertions that are not supported by the staff

1 report's contents. On page 1, there is a statement that  
2 "all," "all" underscored of the subject import market share  
3 gains occurred at the direct expense of domestic production.  
4 That assertion is not remotely correct. Subject imports  
5 indeed rose and the domestic shipments indeed declined over  
6 most of the POI, like the upward and lower blades of  
7 scissors when being opened. Only two blades are not at all  
8 connected. The blade for domestic shipments going downward  
9 is almost entirely explained by the decline of the Sears  
10 brand Craftsman and other shortcomings of the domestic  
11 industry's product mix, as you've already heard.

12 All the details appear in Respondent's  
13 prehearing brief, with numerous citations to the prehearing  
14 report and other sources. The blade driving imports upwards  
15 is entirely explained by the contemporary growth of other  
16 brands served by subject imports based on non-price factors.

17 Critical background in this regard is found in  
18 the prehearing brief of the Home Depot, already submitted,  
19 as well in the testimony of the Sears representative you  
20 heard today. The Commission simply must accept that in this  
21 case subject imports and domestic products compete and  
22 brand-based features and functions, not on price. The  
23 suppliers are private label manufacturers for the highly  
24 differentiated brands owned the promoted by the purchasers,  
25 mainly the big box stores, which distribute and vigorously

1 promote sales in competition with other brands.

2                   The competition at the retail level is what I  
3 would call the battle of the brands, not direct competition  
4 between domestic production and subject imports. Think  
5 about the transaction of Craftsman and Stanley Tools.  
6 According to the public SEC statements, Stanley paid almost  
7 a billion dollars just for the brand Craftsman, and you  
8 could look at what they paid for the manufacturer of the  
9 product, Waterloo. Jump to your own conclusions.

10                   Each producer's volume is tied to the fortunes  
11 of the brands that he's obligated to supply. Changes in  
12 volume and relative market share reflect the fortunes of the  
13 brand they serve, not the relative prices of the products  
14 purchased by the retailer. Petitioners' claim of one for  
15 one direct displacement by the subject imports is simply  
16 absurd and unsupported by the record.

17                   On page two of their brief, Petitioner asserts  
18 a certain margin of underselling by subject imports, which  
19 is described as large. Only later in the body of their  
20 brief is it revealed that the percentage cited was  
21 calculated by them and not found in the prehearing report.  
22 Staff's own calculations based on prices of comparable  
23 products sold at the same level of trade in fact show little  
24 underselling, and disparate trends over time in prices of  
25 both imports and domestic production, as discussed at

1 length in Respondents' prehearing brief.

2           Petitioners makes the well-worn argument that  
3 if imports were differentiated with positive non-price  
4 attributes, then they should command the higher price. In  
5 this case they do. As shown in the prehearing reports,  
6 traditional price comparisons and discussed in Respondents'  
7 prehearing brief. Although generally a rather blunt  
8 instrument, you could see from the staff report the  
9 averaging values of the subject imports versus the domestic  
10 industry reflect a much richer product mix.

11           Petitioners' argument in this regard amounts  
12 to an admission against interest, because the imports are  
13 higher priced. Petitioner presents another old argument  
14 that U.S. net selling prices should instead be compared to  
15 the purchase price of subject imports imported directly,  
16 citing costs as being included as freight, insurance and  
17 certain other movement costs.

18           But that argument fails in this case because  
19 it misunderstands and misstates what differences in the  
20 level of trade are. They are not simply differences in  
21 movement charges of the goods.

22           But the value added by the service of the  
23 purchasing function, the development of the product, the  
24 distribution function that previously was performed by  
25 independent distributors, that service is valuable. No

1 one's in business simply to get their money back on direct  
2 costs of acquiring the product; it's a reward for the  
3 service of centering the product in an important way in the  
4 marketplace and handling all of the purchasing function and  
5 logistics. That's a valuable service, not simply measured  
6 in the price of the boat, insurance and any duties.

7           Petitioners' brief in this regard reflects a  
8 fundamental misunderstanding of the services provided by  
9 direct retail purchaser, rather than by the manufacturer or  
10 independent distributor of the product. The representative  
11 here from Sears I'm sure could expound further on that  
12 subject if you're interested, because that's part of what  
13 they do. Petitioners' self-calculated price comparison is  
14 therefore of absolutely no probative value in this case.

15           But perhaps most striking in Petitioners'  
16 introduction to its prehearing brief is a statement on page  
17 three, that the domestic industry is in a highly vulnerable  
18 condition, and that its injury will only intensify and cause  
19 the elimination of yet another U.S. industry. The assertion  
20 is just not credible for various reasons, but most  
21 particularly because nowhere in Petitioners' brief is there  
22 even mention of its recent acquisition by the Stanley Tool  
23 Works subsidiary of the well-known firm Black and Decker.

24           That events subverts the entire stated motive  
25 for filing this case, and any justifiable claim for the

1 industry's future vulnerability. The details associated  
2 with that event, which appear to have been suppressed over  
3 the period leading up to this final phase of the  
4 investigation, both from the public eye and even from the  
5 Commission's confidential questionnaires, should be sought  
6 prior to the due date for the post-hearing brief.

7 Thank you. I'd be pleased to answer any  
8 questions.

9 MR. SPOONER: I'll now turn to Julie LeBell of  
10 Home Steel.

11 STATEMENT OF JULIE LeBELL

12 MS. LeBELL: Good afternoon. My name is Julie  
13 LeBell. I am vice president of Sales for Shanghai Home  
14 Steel Industry Company and Steelman Easy Life, Inc., which  
15 acts as Home Steel's sales and marketing agent in the United  
16 States. I have been VP of Sales at Home Steel since 2008.  
17 Shanghai Home Steel has produced steel and stainless steel  
18 custom-designed products for sale in the U.S. since 2003.

19 Until now, this hearing has focused on whether  
20 Waterloo's problems have been caused by low-priced Chinese  
21 imports, or by Sears' financial difficulties and Home  
22 Depot's entrance to this market. Witnesses also have  
23 offered differing opinions as to whether so-called  
24 industrial tool chests are produced and sold by the same  
25 domestic industry which sells tool chests to mass

1 merchandisers for resale to their customers.

2 I'd like you to turn your attention to another  
3 of the United States' leading mass merchandisers, Lowe's.  
4 My testimony today focuses on the ongoing business  
5 relationship between Home Steel and Lowe's. From my  
6 perspective as Lowe's primary vendor over the last decade,  
7 the high-priced, high quality innovative tool chests made by  
8 Home Steel, which Lowe's sells under their Cobalt brand,  
9 have not injured Waterloo, and I'm having a difficult time  
10 understanding how Waterloo can claim that so-called  
11 industrial chests and subject tool chests are produced and  
12 sold by different industries.

13 Home Steel's in-scope tool chests are  
14 practically the same as out of scope tool chests, and our  
15 chests are sold to all customers, from the do-it-yourselfers  
16 to industrial customers. The distinctions in retail and  
17 industrial products, as described in Waterloo's petition,  
18 make no sense in real world industry practice. The  
19 so-called industrial customer buys in-scope and out of scope  
20 tool chests across the spectrum based on their particular  
21 requirements of price, features and functionality.

22 Keeping with the spirit of today's  
23 presentations, in which a picture is worth a thousand words  
24 and a sample 10,000, I have brought with me for your  
25 examination two samples and a couple of slides. Before I



1 discuss the samples and slides, I'd like to give you a brief  
2 history of Home Steel's sales of tool chests to Lowe's.

3           Lowe's first approached Home Steel in 2005 to  
4 design and manufacture a stainless combination tool box  
5 which they wanted to introduce into their product line. At  
6 that time, Waterloo was manufacturing Cobalt brand tool  
7 storage for Lowe's, but was unable to meet Lowe's product  
8 specification requirements for a stainless steel product.  
9 Home Steel was able to meet these requirements. Stainless  
10 steel tool chests were more expensive than other chests in  
11 the market at the time.

12           In 2006, Lowe's decided to expand the  
13 stainless steel line further and also to develop a stylized  
14 look that would differentiate the Cobalt tool storage line  
15 from its competitors. To create this line, Lowe's held a  
16 product line review and invited bids from both domestic and  
17 foreign manufacturers. Home Steel bid on and was awarded  
18 the entire in store Cobalt line. We won for reasons having  
19 nothing to do with price.

20           Lowe's wanted a stylized high end look with  
21 Champford edges, double-walled constructions and innovative  
22 features such as integrated power supply, recess padded  
23 handles, clamshell lids and integrated lighting. At the  
24 time, these were innovative features specific to Home Steel  
25 products that are now more common.

1                   We also offered Lowe's a tool chest with  
2 stainless construction which is stronger than a tool with  
3 seams and which gives the chest a cleaner appearance. Home  
4 Steel was willing and able to meet all the requirements for  
5 Lowe's products. Waterloo was not. Before we were awarded  
6 Lowe's business in 2006, Waterloo was selling the same  
7 product to both Sears and Lowe's.

8                   This was a traditional box-like product  
9 without features and with single wall construction. The  
10 only difference was the brand name, Craftsman for Sears and  
11 Cobalt for Lowe's. When Lowe's decided to upgrade and  
12 differentiate its product line, Waterloo refused to go  
13 along. They believed that it was more important to serve  
14 the Craftsman Sears business than to innovate and sell to  
15 Lowes. Price was not the reason Lowes turned to Home Steel  
16 in 2006 and stayed with Home Steel for the next decade.

17                   Between 2006 and 2015, Lowes initiated two  
18 other full-scale product line reviews, and both times Home  
19 Steel was awarded the in-store Cobalt lines, in addition to  
20 private brand lines for reasons having nothing to do with  
21 price. In October of 2015, Lowes initiated another  
22 full-scale product line review, which concluded in 2016.

23                   In this review, Lowes decided to redefine and  
24 expand its tool storage business, in an effort to attract a  
25 wider range of customers, more specifically the higher

1 volume/lower price point products. However, unlike prior  
2 reviews, in 2016 Lowes awarded its opening to mid-level  
3 price point business, its 1000 and 2000 series products to  
4 Waterloo, and this was prior to the petition being filed.

5 We bid for these products, but we were not  
6 able to meet Waterloo's low prices and domestic distribution  
7 model. Home Steel lost business in this category of product  
8 on 12 SKUs based on Waterloo's low prices. Home Steel was  
9 awarded the Lowe's 3000 series business, which included  
10 Cobalt brand highly customized feature-rich products at the  
11 lower volume, higher price points.

12 Waterloo did not compete for this series. It  
13 did not produce stainless steel tool chests, fully  
14 double-walled tool chests and other innovative feature-rich  
15 tool chests. Waterloo also limited the color options they  
16 offered to Lowes. They only offered Lowes three different  
17 colors. We offered Lowes tool chests in nine different  
18 colors and two different finishes, stainless steel and  
19 powder-coated.

20 Now let's examine the samples. Look at the 41  
21 inch brand Cobalt tool chest sold in Lowes and produced by  
22 Waterloo and they're the ones in the back there, the last  
23 two. The 2000 series, which is the black tool chest and  
24 Home Steel's the 3000 series, which is the stainless steel  
25 tool chest.

1                   The Waterloo chest retails for \$618. The 3000  
2 chest by Home Steel sells for 998 in powder-coated and 1,268  
3 in stainless steel. The reasons for the price differential  
4 between Home Steel's products and Waterloo's products are  
5 obvious. The finish, quality and type of construction,  
6 features and accessories. Both Home Steel powder-coated and  
7 stainless steel products are constructed in the same way.

8                   For example, if you remove the drawers of both  
9 pieces, you would notice that ours has a full heavy steel  
10 panel to reinforce the frame and support the drawer glides.  
11 Waterloo's tool chest has a smaller and less durable inner  
12 panel. Second, if you looked at the lids of both products,  
13 you would see that our product has a fully double-walled  
14 lid, versus Waterloo's lid which has a single panel and a  
15 stiffener across it. All you have to do is jiggle both lids  
16 to feel the difference.

17                   Third, another more subtle difference is in  
18 the quality of the drawer glides. While both drawer glides  
19 are rated for 100 pounds, Home Steel's glides are  
20 constructed with a higher grade of steel and have higher  
21 tolerances for the ball bearings, which result in the drawer  
22 operating more smoothly when fully loaded.

23                   Fourth, the base of our rolling cart is  
24 reinforced with steel channels and welded locking nuts for  
25 the castors, versus Waterloo's lightweight construction on

1 the base and non-welded lug nuts to attach the castors,  
2 making them less durable. I am happy to demonstrate these  
3 differences on the samples upon request.

4 I would also like to take a moment to address  
5 Waterloo's award as innovator of the year for tools at  
6 Lowes. To my knowledge, this award was given to Waterloo  
7 not because of new product innovation, but because of their  
8 domestic distribution model as well as their competitive  
9 pricing. As you can see from the samples we have brought,  
10 their tool chests are a lesser version of the product that  
11 Home Steel has been providing to Lowes for ten years.

12 It is our -- sorry. It is our understanding  
13 that Lowes margins are consistent for all products in this  
14 category. It is also our understanding that Waterloo easily  
15 beat us on price to Lowes for the 1000 and 2000 series, and  
16 we know that they did not even try to compete for the 3000  
17 series. These facts cannot possibly support Waterloo's  
18 claims that they are being injured by low-priced Chinese  
19 tool chests.

20 Next, please look at our 56 inch tool chest.  
21 This time its' a slide, not a sample. This is an in-scope  
22 combination chest we sell to Lowes. It has 18 gauge walls,  
23 a construction feature that Waterloo claims is typical of a  
24 so-called industrial chest. Its weight falls within the  
25 weight Waterloo associated with so-called industrial chests.

1                   Its features include fully reinforced double  
2 wall construction, double clamshell lids, heavy duty  
3 industrial-rated castors and heavy duty door slides. Its  
4 suggested retail price is 1,585. We have been advised that  
5 80 percent of Lowes customers for this in-scope chest are  
6 industrial users. They use this chest for mechanics garages  
7 and professional workshops.

8                   These facts demonstrate that there is simply  
9 no clear dividing line separating in-scope chests from  
10 so-called industrial chests. My third and last slide shows  
11 Lowes product lineup from 2010 to 2016, when Home Steel  
12 supplies all tool storage from Lowes as well as the current  
13 lineup for 2017 forward.

14                   As you can see and as I discussed, not only  
15 did Lowes expand its line in 2017, but it awarded a large  
16 share of its business to Waterloo. Home Steel retained the  
17 high end items for products which Waterloo did not compete.  
18 Our 3000 series chests differ from Waterloo's 1000 and 2000  
19 with respect to construction, features, finishing and grade  
20 of components.

21                   Many of these chests, like the 56 inch chest  
22 in my prior slide are sold to industrial customers. In  
23 addition to their in-line product offerings, Lowes offers  
24 promotional opportunities. These are open to any vendor.  
25 Waterloo has been awarded product in this category primarily

1 due to their low pricing. Thank you for listening to my  
2 testimony, and I will be happy to answer any questions that  
3 you may have.

4 MR. SPOONER: Thank you. We'll now move to  
5 David Moyer of HMC.

6 MR. GRIMSON: Good afternoon, Commission.  
7 Jeff Grimson from Mowry and Grimson here on behalf of HMC  
8 Holdings. Without any delay, David take it away.

9 STATEMENT OF DAVID MOYER

10 MR. MOYER: Good afternoon. My name is David  
11 Moyer, and I'm the president of HMC Holdings, LLC. We are a  
12 global manufacturer of quality tool boxes. We not only  
13 import tool boxes and metal cabinets from China, but we also  
14 utilize domestic manufacturing when possible and up until  
15 last year owned our own domestic tool box factory in Ohio.  
16 In 2005, the JVA Partnership purchased HOMAC out of  
17 bankruptcy. HOMAC was heavily dependent upon a few  
18 customers. Unfortunately, one of those customers filed  
19 bankruptcy and shortly after so did HOMAC. Ironically, that  
20 customer was K-Mart. Today, we see a very similar situation  
21 at Waterloo, with Sears and K-Mart's decline.

22 After reconstituting HOMAC in 2006, the JVA  
23 Partnership purchased Kennedy Manufacturing in May of 2007.  
24 Kennedy was and still is the oldest toolbox manufacturer in  
25 the USA. It started in Van Wert, Ohio in 1910 and is still

1       there today. This acquisition gave us a unique position in  
2       the market, in that we could and do still supply retail  
3       jobbers and industrial market.

4                       However, in November of 2016, we sold Kennedy  
5       to Cornwell, which services the automotive channel. This  
6       will be a very important fact to remember later. With my  
7       experience with both domestic manufacturing and importing  
8       toolboxes, I believe I can add a unique and important  
9       insight into the state of the whole industry, including  
10      retail jobber industrial channels.

11                      For the purpose of this hearing, I would like  
12      to focus on two points. First is a consolidation to the  
13      domestic toolbox market as a condition of competition today,  
14      which is important to the Commission's analysis. The time  
15      line of Stanley's purchase of Waterloo is also important for  
16      the Commission to consider.

17                      Second is Waterloo's absurd artificial  
18      distinction between what Waterloo calls industrial toolboxes  
19      and those they consider retail. This claim has little to do  
20      with market realities, and it is deceptive. I would like to  
21      show a PowerPoint slide of a series of important events that  
22      also time lines the Stanley acquisition of Waterloo. I  
23      believe these events are significant, and it's important for  
24      the Commission to understand how they have and will impact  
25      the market.



1                   In our comments on the draft questionnaire, we  
2 urged the ITC to gather normal due diligence documents that  
3 Waterloo and Stanley would have exchanged, and I hope the  
4 Commission has been successful in doing that. Numerous  
5 actions by Waterloo only make sense if you consider how  
6 Stanley and AFI would greatly benefit by the filing of the  
7 AD CDV case.

8                   MR. MOYER: In 2012, Fortune Brands segregated  
9 Waterloo from its portfolio and put it up for sale. It  
10 reduced its product offering and investment. Uncertainty  
11 forced Waterloo's customers to begin finding alternative  
12 sources. In 2015, Fortune Brands sells Waterloo to AFI. In  
13 2016, Sears starts to shop Craftsman brand.

14                   January 2017, Sears announces agreement to sell  
15 Craftsman to Stanley. March 27th, Stanley buys Craftsman.  
16 Then only two weeks later, April 11th, 2017, Waterloo files  
17 the AD/CVD case, scope and domestic industry excludes what  
18 is called industrial boxes, some made by Stanley companies,  
19 Mac Tools, Proto, Lista and Vidmar.

20                   May 22nd, 2017, Waterloo excludes service carts  
21 from the DOC scope. This is a major product imported by Mac  
22 Tools, a Stanley company. In July 27th, 2017, Stanley buys  
23 Waterloo from AFI. The purchase is not disclosed in its SCC  
24 filings. September 8th, Waterloo informs the ITC of its  
25 acquisition by Stanley and comments on the draft

1 questionnaire.

2           As I said, the timeline is important. In just  
3 twenty-four months, Waterloo's world would be turned upside  
4 down and AFI's investment was in jeopardy. But not one  
5 single event had anything to do with imported tool boxes.  
6 Waterloo's prior owners, Fortune Brands, starved it of  
7 investments and almost closed it down. That was not harmed  
8 by importers.

9           After AFI bought Waterloo, two things happened  
10 that further endangered AFI's investment. First, Sears  
11 announces it's shopping Craftsman, Waterloo's number one  
12 customer. Second, Waterloo's second customer, Cornwell,  
13 bought Kennedy, the oldest U.S. producer, and shifted its  
14 production from Waterloo to Kennedy. Not harmed from  
15 imports. We owned Kennedy at the time.

16           As the sole and primary supplier of Craftsman  
17 tool boxes, logically Stanley have been engaged in talks  
18 with Waterloo prior to completing its purchases of Craftsman  
19 to ensure the supply chain would be intact at least during  
20 the transitional time period.

21           This is not an unreasonable assumption. We  
22 heard today that it was. After reviewing the events and  
23 timeline of the past twenty-four months, the strategic  
24 felling of the AD case appears to be motivated by AFI's  
25 desired to artificially inflate Waterloo's value in order to

1 increase its ROI and quickly exit, not to protect itself  
2 from harm by importers.

3 After the acquisition of Waterloo, Stanley  
4 controls approximately 70% of the total tool box market.  
5 Mac Tools, Proto, Lista, Vidmar, Craftsman and now Waterloo.  
6 These brands are a very significant percentage of the U.S.  
7 total market share in both the retail, job and industrial  
8 channels, and should all be considered. Now that Stanley  
9 owns both Craftsman and Waterloo, it will be available at  
10 Lowe's and possibly other retailers, and no longer  
11 exclusively limited to Sears and their declining sales.

12 This is important to the Commission's analysis  
13 because the consolidation enables Stanley to control pricing  
14 at many different points in the distribution channel.  
15 Stanley also now controls the scope of the case at the  
16 Department of Commerce and can protect its own imports. For  
17 example, the service carts.

18 Stanley's own financial results talk about how  
19 its toll storage divisions are leading the way to higher  
20 profits. This does not sound like a company that's being  
21 harmed by imports. The Waterloo/Stanley dynamic leads me to  
22 the next point -- the distinctions between industrial tool  
23 boxes and retail tool boxes does not exist. There is no  
24 physical or production process-related distinction between  
25 these two types of tool boxes.

1           The industrial/retail divide is largely driven  
2 by marketing. A customer does not choose a toolbox based on  
3 the material thickness or the weight of the tool box. In  
4 fact, I would challenge you to find any customer that could  
5 tell you the metal thickness of their tool box, or the  
6 weight of it. The concept is just as absurd as believing a  
7 customer selects a car based on the metal thickness or the  
8 total weight of the car.

9           The decision is personal preference, and can be  
10 driven by ego -- "I have to have the best," or by finances  
11 -- "What can I afford?" The term "industrial" is a  
12 marketing tool and does not provide any clear dividing line  
13 when you look at physical features on the tool box  
14 themselves. Homak knows this first-hand, from our own  
15 experience, producing both industrial and retail tool boxes.

16           Even though we tried to make a distinction  
17 between the two, we were unsuccessful. Retail customers  
18 wanted Kennedy, and industrial customers wanted Homak, and  
19 vice versa. In order to protect the brands, we would  
20 literally badge anything going into the retail or  
21 automotive, Homak, and anything going into the industrial  
22 channel, Kennedy. Primarily the exact same box with the  
23 same packaging, the only difference being the nameplate.

24           Where it is sold is even more irrelevant today.  
25 E-commerce has blurred whatever lines once existed many

1 years ago. Now, thanks to e-commerce, nearly every tool box  
2 is available to any customer at any time, regardless of  
3 their occupation. There are no laws that say you cannot buy  
4 a tool box labeled industrial if you are a hobbyist, or you  
5 have to buy an industrial tool box if you are a mechanic or  
6 millwright.

7 In the scope memo released yesterday, even the  
8 DOC stated that there appears to be an overlap in the market  
9 between in-scope merchandise and industrial-grade products.  
10 The DOC is correct. There is no clear lines. Any attempt  
11 to segregate the market is false and is only an attempt to  
12 manipulate data. Specifically, the attempt to differentiate  
13 channel is a blatant attempt to avoid looking at the parts  
14 of the tool storage industry that are healthy and  
15 succeeding.

16 The Snap-On, Cornwell, Matco, Equipto and the  
17 Stanley companies, Mac Tools, Vidmar, Lista and Proto, are  
18 all domestically produced and compete on features,  
19 qualities, designs, innovation, while Waterloo has lagged  
20 far behind in features, innovation and qualities. These  
21 companies together dwarf Waterloo and are far more  
22 profitable.

23 Unfortunately, because of the artificial  
24 distinction that Waterloo has created, the Commission may  
25 not be seeing the positive and very significant production

1 in sales of these domestic brands. I would like to thank  
2 you very much for allowing me this time. And I'm happy to  
3 answer any questions that you may have regarding this.

4 STATEMENT OF DAVID M. SPOONER

5 MR. SPOONER: Thank you, Madam Chairman,  
6 Honorable Commissioners. I will just make a few points to  
7 wrap up our direct testimony, to sum it up and frankly, to  
8 make a couple of quick rebuttal points, and then we'll be  
9 happy to answer any questions.

10 Waterloo sells the vast majority of its product  
11 to Sears. The idea that Sears has declined is not the cause  
12 of Waterloo's declining sales strange credulity. As we've  
13 discussed, Sears closed 17% of its stores during the POI and  
14 vendors are now demanding prepayment, at least according to  
15 news reports this month.

16 Waterloo argues, rather, that it is price, not  
17 features or innovation that has caused Waterloo's struggles.  
18 This assertion is belied by the briefs, and frankly by the  
19 testimony of the two largest retailers, Sears and the Home  
20 Depot. I think it's also belied, and I thought it was  
21 interesting, by the testimony from petitioners today.

22 I hope I'm summarizing accurately. I'm  
23 certainly trying to. But when petitioners began their  
24 direct testimony, they asserted numerous times that it was  
25 all about price. By the end of their testimony, they

1 were--and this is in response to questions from Commissioner  
2 Johanson or Chairman and Mr. Williamson, to all three--that  
3 it wasn't all about price.

4           They didn't quite phrase it that way, but on  
5 numerous occasions, they admitted they hadn't bid for many  
6 products or for certain products, that their automated lines  
7 could only make certain products. What are the declares  
8 that they have been told, time and time again by Sears?  
9 That Waterloo's problem is price. I can't stress this  
10 enough. There's not a shred of evidence on the record that  
11 this is true. And Sears has testified otherwise.

12           I beseech the Commission also to review, as I'm  
13 sure you have, the Home Depot's brief and its description of  
14 Waterloo's interactions with the Home Depot, keeping in mind  
15 that the Home Depot is the fastest growing outlet for steel  
16 tool chests in the United States.

17           With respect to domestic like product  
18 issues--and I should stress something--the Commission in our  
19 view need not address domestic like product issues because  
20 Commissioner's causation case is so weak. But for goodness  
21 sake, just look at the two samples we have here today, the  
22 red 52-inch chest and the black 52-inch chest next to it.

23           I don't think we ever revealed which one was  
24 in-scope and which one was out of scope and perhaps the best  
25 way to close is to -- I'm tempted to ask the Commission what

1       they think? They teach you in law school not to ask a  
2       question you don't know how the witness is going to answer,  
3       so I'll simply reveal it. The black tool chest is the one  
4       that is in-scope and the red one is the one that is out of  
5       scope, and with that, we should close, and we're happy to  
6       take any questions.

7                   CHAIRMAN SCHMIDTLEIN: Okay, thank you very,  
8       much, Mr. Spooner. I'd also like to thank this panel of  
9       witnesses for being here today to help us understand this  
10      case. We very much appreciate your time. We will start the  
11      Commissioner questions this afternoon with Vice-Chairman  
12      Johanson.

13                   VICE CHAIRMAN JOHANSON: Thank you, Chairman  
14      Schmidtlein. And I would also like to thank all of you for  
15      appearing here today.

16                   Petitioners cite to Table 2-8 at Page 218 of the  
17      pre-hearing staff report and make the assertion that  
18      "perhaps the best evidence of the substitutability of the  
19      tool chest, regardless of source, is the retailer's  
20      substitution of tool chests from U.S. suppliers and import  
21      sources to be sold under the same brand names." And this is  
22      found at Waterloo's prehearing brief at Page 27.

23                   Waterloo also provides detailed business  
24      proprietary information to this effect on Page 22 of its  
25      prehearing brief. What is your response to the petitioner's



1 substitutability argument?

2 MR. MALASHEVICH: Bruce Malashevich from ECS.  
3 I'll start out and then invite other witnesses to get into  
4 it. I noticed that language, and actually it's a certain  
5 amount of "smoke". If you were to look at the details of  
6 the staff report and look and see what's driving the change  
7 in volume, it's limited basically to two brands and a  
8 handful of suppliers.

9 That's not to say that they don't reach out to  
10 other suppliers to supplement their mainstream supplier, but  
11 it's basically filling in gaps. The big movement in volume  
12 is limited to very few players buying from particular  
13 products for a particular reason that they find to be more  
14 favorable to them than buying from what Waterloo has to  
15 offer at this particular time. So I urge you to look  
16 through the smoke and focus on the main numbers, which are  
17 very narrowly driven.

18 VICE CHAIRMAN JOHANSON: Are the products being  
19 provided to those suppliers, are they of lesser quality,  
20 would you assert?

21 MR. MALASHEVICH: The only thing -- Bruce  
22 Malashevich again -- I only have the questionnaire  
23 responses. I invite others much more knowledgeable of the  
24 products than I, to supplement my remarks. But I cannot  
25 think of a prehearing report that placed such great weight

1 on product differentiation. And it's not necessarily  
2 quality. It's just a greater variety of offerings that  
3 people apparently prefer to buy in today's market  
4 environment.

5 I can't think of any case where, not where the  
6 evidence of innovation and other product features was so  
7 powerful from the questionnaire responses, and in fact, when  
8 properly compared, the price of the subject imports  
9 naturally is higher. So the model that they're giving away  
10 quality by lower price simply doesn't work.

11 MR. SPOONER: I would simply add, if I may -- of  
12 course, we're happy to address it at further length in our  
13 post-hearing brief -- but I would further add that, while  
14 the data thereout the fact that Waterloo has long hitched  
15 its wagon to Sears, and that's common knowledge on the  
16 street as well, I don't think respondents have ever claimed  
17 that, of course, Waterloo was in any way prohibited from  
18 selling to other brands.

19 And I would point the Commission to Jamie  
20 Enger's testimony about how it's interesting to me that  
21 Geelong and Waterloo both sell to Stanley. Or both purveyed  
22 a Stanley Black & Decker, but that Geelong provides Stanley  
23 Black & Decker now with products that Waterloo was unable or  
24 unwilling to provide.

25 VICE CHAIRMAN JOHANSON: Thanks, Mr. Malashevich

1 and Mr. Spooner. On Pages 70 to 71 of the joint  
2 respondents' brief, you all note that in 2017, Waterloo  
3 added Lowe's, Walmart, Tractor Supply, Menard's and  
4 Caterpillar as suppliers. If Waterloo is producing a  
5 product of lesser quality, why did Waterloo gain sales with  
6 these new customer accounts?

7 MS. LEBELL: This is Julie LeBell from  
8 Hom-Steel. I can speak to what's going on at Lowe's, having  
9 been there and selling to them for the last ten years.  
10 Lowe's has historically sold a higher-quality product and a  
11 higher price-point product, compared to the competitors.  
12 And so they brought Waterloo in to fill in the gaps at the  
13 lower price-points that we couldn't compete in, at least  
14 Hom-Steel couldn't compete in.

15 The quality -- I'm not sure it's as much a  
16 quality issue as it's a matter of how they choose to  
17 manufacture their products. And they're just -- it's  
18 manufactured differently and with different specifications  
19 than what the other importers may be making.

20 VICE CHAIRMAN JOHANSON: Okay, thank you,  
21 Ms. LeBell. In joint respondents' brief, Pages 23 to 24,  
22 respondents cite branding as an important factor in  
23 purchasing decisions, and go on to discuss the iconic nature  
24 of American brands, and the fact that only "popular"  
25 Craftsman brand, which was produced by Waterloo for decades,

1 was recently sold for \$900 million.

2 If the Craftsman brand is so valuable, how can  
3 one contend that Waterloo, which produces Craftsman  
4 products, is non-innovative and is a lower quality product?

5 MR. SPOONER: We should probably -- I don't  
6 wanna put Sears on the spot, but we should probably defer to  
7 Sears a bit on that, 'cuz Sears, of course, is linked to the  
8 Craftsman brand.

9 But one response to that, and in fact, I think  
10 the proper response to that is to point to Sears' testimony  
11 in which Sears talked about changes in its relationship with  
12 Waterloo since 2014 about how consumer tastes evolved,  
13 demanded innovation, and Waterloo was unable to, in a timely  
14 way, produce innovative products. So there may have been a  
15 time -- after all, the relationship with Sears has extended  
16 back for seventy years, in which Waterloo was at the  
17 forefront of the tool chest market. But that, over the last  
18 several years, along with Sears' decline, has changed.

19 MR. O'BRIEN: If I can, Vice-Chairman Johanson.  
20 This is Kevin O'Brien with Baker & McKenzie. I would just  
21 reiterate, there's a very important distinction between  
22 innovation and time to market.

23 And Sears is very focused on bringing products  
24 to market when the customer demand is there. And that's, as  
25 we've said, it's the last six to eight weeks of the calendar

1 year, and it's the Father's Day weekend. And we've cited  
2 examples of when we have put it to Waterloo.

3 When I say cited examples, I mean not only in  
4 the past, but ongoing, right now as we sit here today, where  
5 Waterloo is not able to deliver the product we want on the  
6 time that's required. And these are reasonable time frames,  
7 but they're simply not able to, or not willing to, I can't  
8 -- I don't want to speak for them. But they are not  
9 delivering. So that ties our hands in terms of bringing the  
10 products that Sears wants to bring to market.

11 VICE CHAIRMAN JOHANSON: So once again, it's not  
12 so much an issue of quality and innovation as timing? With  
13 regard to Sears and Craftsman?

14 MR. O'BRIEN: Yeah. It depends in a sense how  
15 you're using the term "innovation". Waterloo is capable of  
16 putting features into a unit. That's not the issue. The  
17 issue is, can they put together the size we want with the  
18 features we want in the time frame that we want? And that  
19 is where they fall short in our experience.

20 VICE CHAIRMAN JOHANSON: How long out does that  
21 timeline extend? 'Cuz I assume, if you know that the last  
22 eight to ten weeks of the year or when you're going to be  
23 selling a large chunk of your products, I assume that if you  
24 had a long history with them, they would be used to a  
25 certain time coming around, and you all asking for them to

1 provide products at that time. Can you maybe discuss this a  
2 bit?

3 MS. BOYLE: Absolutely. Kelly Boyle from  
4 Craftsman at Sears. In both instances cited, the timeframe  
5 provided to execute and launch the product was over a year,  
6 which in our history is a realistic timeline --

7 VICE CHAIRMAN JOHANSON: Is that a pretty  
8 standard timeline you all provide?

9 MS. BOYLE: There's been other timelines where  
10 Waterloo has partnered with us and executed product in less  
11 than a year. So in our experience with Waterloo as a doable  
12 timeframe and workable timeframe, as the petitioners stated  
13 this morning, they were working on other product launches  
14 for us in 2016, which is why they chose not to bid on one of  
15 those highly featured products that we then did decide to  
16 import.

17 VICE CHAIRMAN JOHANSON: Okay, thanks, Ms. Boyle  
18 and Mr. O'Brien. My time's expired. Although I think Mr.  
19 Hanson-Currie wants to respond.

20 MR. HANSON-CURRIE: Yeah, Alistair Hanson-Currie  
21 from Geelong. I'd say that we can bring products to market  
22 very, very quickly. We don't need a long period of time.  
23 We can innovate, create samples and meet lead times of our  
24 customers very, very quickly. So we represent a far more  
25 efficient time to market than does Waterloo.

1                   VICE CHAIRMAN JOHANSON: Why do you think that  
2 is? Why do you think you all are more efficient?

3                   MR. HANSON-CURRIE: I think we had more flexed  
4 manufacturing and maybe more efficient manufacturing, not  
5 necessarily into automation, but just generally more focus  
6 as well on design and then new product development than does  
7 Waterloo.

8                   VICE CHAIRMAN JOHANSON: All right. Thank you  
9 for your responses. My time has expired.

10                  CHAIRMAN SCHMIDTLEIN: Commissioner Broadbent.

11                  COMMISSIONER BROADBENT: I'm going to ask some of  
12 the same questions I asked this morning. Has e-commerce,  
13 particularly given the entry of Amazon into this market,  
14 affected the way that traditional brick-and-mortar retailers  
15 market and purchase tool chests in the United States?

16                  MS. ENGER: Yeah. This is Jamie Enger from  
17 Geelong. Absolutely e-commerce has grown our business and  
18 changed the business model.

19                  As far as what we do in brick-and-mortar is, on  
20 the units that we sell into for example the Home Depot, we  
21 advertise items are exclusively on HomeDepo.com, to expand  
22 that business. That is a high-growth industry and we have  
23 modified our packaging, et cetera, to ship that product  
24 successfully to consumers without incurring damage. But,  
25 yes, definitely e-commerce has changed the playing field.

1                   COMMISSIONER BROADBENT; So it changes what you  
2                   can advertise to people and kind of target niche different  
3                   consumer demands. I mean this morning they were saying it  
4                   doesn't make any difference because these are big products  
5                   and it's basically a shipping issue, and we don't see any  
6                   change with e-commerce. But you're talking about the  
7                   marketing of this product and your ability--

8                   MS. ENGER: Marketing, and just the fact that the  
9                   general e-commerce business are, I think everyone here on  
10                  the panel can tout, that their business is growing via the  
11                  e-commerce channel, and you can successfully market and ship  
12                  product to the end user.

13                 COMMISSIONER BROADBENT: Okay. Mr. Spooner?

14                 MR. SPOONER: Thank you, Commissioner Broadbent.  
15                 It's probably also worth pointing out that the sample there,  
16                 which is an extremely large out-of-scope product, is the  
17                 Home Depot's largest, biggest seller online.

18                 COMMISSIONER BROADBENT: Yes, that's interesting.  
19                 Okay.

20                 MR. MOYER: I'm sorry--David Moyer, HMC Holdings.  
21                 The e-commerce has impacted the market I believe  
22                 significantly, and the fact that consumers do a lot more  
23                 research online. They look at reviews. They determine what  
24                 box they want to buy. Even if they do not purchase it  
25                 online, we've seen about a 15 to almost 30 percent in some



1 categories increases in toolbox sales online.

2 We ship a box that's 72 inches that's almost  
3 1,000 pounds right to a customer's home. We have seen  
4 significant growth in the e-commerce business. There's  
5 nothing too large to ship. There's all kind of shipping  
6 services now called "White Glove" and so forth that  
7 literally will deliver the box to your home, unpackage it,  
8 and clean up for you. Thank you.

9 COMMISSIONER BROADBENT: Okay. So do you think  
10 people are buying more of these things because they're  
11 seeing them online?

12 MR. MOYER: I think it empowers them. I think it  
13 gives them a little more confidence in being able to do the  
14 reviews, being able to research multiple retailers at one  
15 time, and compare pricing, compare features and benefits,  
16 and see what other trades people are saying, or other like  
17 individuals may think about that box.

18 So they're getting to be a more finicky consumer,  
19 given all the information that they're being able to get  
20 online? Are you saying that?

21 MR. MOYER: I think they're becoming far more  
22 educated.

23 COMMISSIONER BROADBENT: Okay.

24 MS. ENGER: Yeah, and additionally--this is Jamie  
25 Enger from Geelong--because our items are so large, there's

1 obviously not a ton of room in the stores to display them.  
2 So on dot com you can have a wide assortment, a huge product  
3 mix for the customer to make the selection that's right for  
4 them. So you see expanded assortments online than what you  
5 see in the stores.

6 COMMISSIONER BROADBENT: Okay. Mr. Spooner, I  
7 wanted to ask you about the measurement of demand. There's  
8 this disconnect in our Apparent U.S. Consumption data which  
9 shows a substantial decline in demand, and the evidence  
10 provided by the market participants indicated that demand  
11 has generally increased very steadily.

12 How are you interpreting these results?

13 MR. SPOONER: I don't know if I'm the best witness  
14 to respond to that, to be frank. But I noticed of course  
15 that Petitioners said they were flummoxed by the decline in  
16 demand, and we're happy to respond further in our  
17 posthearing brief.

18 COMMISSIONER BROADBENT: So you're hiding behind  
19 the fact that Petitioners couldn't explain it?

20 (Laughter.)

21 MR. SPOONER: We're happy to respond.

22 COMMISSIONER BROADBENT: Alright--

23 MR. MOYER: This is David Moyer, HMC Holdings.  
24 We've seen a decline in the stores themselves for one  
25 reason. It's a no more do-it-yourself market; it's a

1 do-it-for-me.

2 The days of the husband coming home, or father  
3 coming home, or whoever coming home and working on the car  
4 and fixing the lawn mower are disappearing. So therefore  
5 that market is shrinking. So you're swimming upstream.  
6 You're going up to the other market segments, to the more  
7 professional users. That's where we're heading. That's  
8 where we need to head.

9 That's where we need to go to stay alive. And if  
10 you don't innovate and you don't move upstream, you will  
11 wither and die. It's very important today because of that  
12 market is shrinking, it isn't growing, there is no more--  
13 that market of do-it-yourselfer, that Baby Boomer has moved  
14 on. And it's not even just in our industry, it's in all  
15 industries where you see that.

16 So that's very important to remember, that the  
17 market share is--in my opinion, is decreasing, and that is  
18 why. Thank you.

19 COMMISSIONER BROADBENT: So you agree with our  
20 preliminary data that demand fell over the Period of  
21 Investigation?

22 MR. MOYER: I believe it has, to the best of my  
23 knowledge.

24 MS. ENGER: This is Jamie Enger from Geelong. I  
25 would have to say that it is confusing because we see demand

1 increasing overall from general DIY'ers, homeowners, all the  
2 way up to the professional.

3 COMMISSIONER BROADBENT: Okay. Alright, I guess  
4 maybe for Mr. Spooner. Multiple purchasers indicated that  
5 the U.S. industry had inferior availability compared to  
6 subject imports from China and Vietnam.

7 Given the domestic industry's really low capital  
8 utilization, can you explain why this would be the case?  
9 They have a lot of capacity there.

10 MR. SPOONER: That's certainly true, but I think  
11 it goes back to the ample testimony that the Commission has  
12 heard today about how Waterloo has--they may have idle  
13 capacity, but they have lines that are automated that can  
14 only make certain types of products, and that haven't been  
15 able to meet changing consumer demands, or haven't been able  
16 to innovate.

17 We've heard plenty of testimony today, and saw of  
18 course evidence in prehearing briefs, about how Waterloo was  
19 unable or unwilling to bid on certain products, or fulfill  
20 requests, and I think that's the only explanation for  
21 Waterloo having idle capacity but not being able to fulfill  
22 demand.

23 COMMISSIONER BROADBENT: Okay. This would be a  
24 general one for Respondents, anybody that had a comment.  
25 Craftsman is a long-standing brand in this sector with a

1 good name recognition and reputation, and Waterloo has been  
2 producing Craftsman Tool Chests and Cabinets for many years.

3 Can you provide evidence that consumers view this  
4 product, which overlaps considerably with Waterloo sales, as  
5 falling behind its competitors in terms of quality or brand  
6 recognition? I don't know if that's a clear question, but  
7 in the sense that you were seeing Craftsman has always had a  
8 great reputation, it's basically Waterloo's been producing  
9 this product. Are we seeing any erosion? We're really not  
10 seeing an erosion of the Craftsman brand, which basically  
11 equals Waterloo production.

12 MS. ENGER: This is Jamie Enger from Geelong.  
13 We're certainly seeing I think consumers shy away from the  
14 Craftsman Brands only because so many other brands have come  
15 up to meet and exceed their quality and innovation.

16 And we know that because of the numerous product  
17 reviews we have on Dot Com that say, hey, had a Craftsman  
18 Tool Chest upgraded to a Husky, or upgraded to a Cobal  
19 because they had power strip integration, or offered  
20 magnetic backs for quick tool access, or soft-close door  
21 slides. So we certainly see frequently consumer reviews  
22 that people are changing from Craftsman to a different  
23 branded product.

24 COMMISSIONER BROADBENT: Can you supply those for  
25 the record?

1 MS. ENGER: Absolutely. Happy to.

2 MS. LeBELL: This is Julie LeBell with Hom-Steel.  
3 I'd like to follow up on what Ms. Enger just testified to;  
4 that Craftsman historically has been the brand for tools and  
5 for hardware. And in the last ten years, other retailers  
6 have come up with their own brands, and they've been  
7 building those brands, which have become competitive with  
8 the Craftsman brand, whether it's Cobalt or Husky, or any of  
9 the other house brands for any of the retailers.

10 And as those brands have become more prominent,  
11 Craftsman has fallen behind as far as being that go-to  
12 brand. As far as follow-up and substantiation to that, we  
13 can provide information from bloggers and from on-site,  
14 online I guess bloggers that would testify that effect; that  
15 the buyers in these categories are switching brands, and how  
16 they feel about each brand.

17 And some of it's about areas where they may live  
18 in the country, and maybe what retailer is available to  
19 them, and to whom they become loyal to.

20 COMMISSIONER BROADBENT: I think this social media  
21 information for the record will be interesting for us,  
22 because I don't know how we evaluate it and how you--it  
23 would be fun to see this, but if you could give some thought  
24 to how you say this is representative of what's out there,  
25 and we'll have to kind of do the same thing. But it would

1 be very interesting to see.

2 As I try to understand sort of how brands work in  
3 this industry, in this market, sometimes it's important,  
4 sometimes it's not important, can you sort of describe to me  
5 under what conditions brand is important, and what  
6 conditions it may be less important? And I throw that out  
7 because I don't know who is the best to answer that.

8 MR. MOYER: This is David Moyer, HMC Holdings. In  
9 my opinion, brands are vital. Brands is something you hang  
10 your hat on. If you don't have your own brand, you're at  
11 the mercy of a legacy and a Craftsman situation. Waterloo  
12 is relying on the legacy of Craftsman. Branding to a  
13 manufacturer is very, very important.

14 It gives you something to hang your hat on. It  
15 gives you your own stability and defines who you are. So I  
16 don't know if that answered it or helped. And, exactly, we  
17 have our own brand, Homak. We spend hundreds of thousands  
18 of dollars a year in magazines, professional tool magazines,  
19 equipment magazines, industrial magazines, social media. We  
20 have 120,000 followers.

21 We spend a lot of time building our brand so that  
22 we're in control of our own destiny. We don't have to rely  
23 on a Cobal, or we don't have to rely on Craftsman. We have  
24 taken the bull by the horns, so to speak. We're very  
25 different in that, in that we have our brand. We are not at

1 the mercy of--if Cobal wants to run out and put something up  
2 for bid, or if Craftsman decides that they want to go  
3 somewhere else. Having your own brand, and brand, is very  
4 important. Thank you.

5 MR. O'BRIEN: Commissioner Broadbent, Kevin  
6 O'Brien from Baker & McKenzie. The importance of the  
7 Craftsman Brand really cannot be overstated. It's a  
8 uniquely valuable brand, as evidenced by the recent sale.  
9 It's 90 years old. It stands for high quality,  
10 dependability, and performance.

11 And that is inherent in Sears' approach to  
12 putting a Craftsman product on the market, which is really  
13 fully consistent really with our comments, which is  
14 availability and performance are paramount to our  
15 decision-making, and it's because of the brand that goes on  
16 the product.

17 COMMISSIONER BROADBENT: Okay--

18 MS. BOYLE: I'm sorry, Kelly Boyle from Sears. To  
19 add a few comments that, when you look at the very few  
20 imports that we do bring in, it's because of the features  
21 that we've identified we need to be able to provide to our  
22 consumers that we could not get in a timely manner from the  
23 Petitioner, that then lead to why we've imported certain  
24 products. Because of the heritage of the brand and the  
25 strength of the brand, we felt we needed those features to



1 provide to our consumers.

2 COMMISSIONER BROADBENT: Great. I've way over  
3 stayed my time. Thanks.

4 CHAIRMAN SCHMIDTLEIN: Okay, thank you.

5 So, Ms. Boyle, I want to follow up I guess with  
6 regard to Sears. The Petitioners--and I think this was  
7 confidential; I was just looking for it--but they had a  
8 slide that had on it the decline in total tool chest  
9 purchases by Sears. So if I understand, over the POI Sears  
10 has reduced its purchases of tool chests overall? That's  
11 correct, right?

12 MS. BOYLE: That is correct.

13 CHAIRMAN SCHMIDTLEIN: Okay. But in addition to  
14 that--which I suppose--so you are just reducing the scale of  
15 that business? Is it Sears' intention that you're going to  
16 ramp back up to an earlier level? Or do you want to answer  
17 that posthearing?

18 MS. BOYLE: We can provide more information in the  
19 posthearing brief.

20 CHAIRMAN SCHMIDTLEIN: Okay. And any question I  
21 ask that you want to provide posthearing, that's fine, just  
22 let me know.

23 In your brief you make a statement, or I guess  
24 Baker McKenzie does, at the end about maintaining volumes  
25 and business with the domestic industry. So since the

1 Waterloo has been purchased by Stanley Black & Decker,  
2 you've sold the Craftsman brand but you're keeping a license  
3 for it. Is it Sears' intention that you're going to  
4 continue buying from Waterloo?

5 MS. BOYLE: That is our intention. We can  
6 provide more details around that relationship and the  
7 dynamics of it in the posthearing brief, but our intention  
8 would be that we continue having product supplied by  
9 Waterloo Industries.

10 CHAIRMAN SCHMIDTLEIN: Okay. But I assume that  
11 you're going to source from more than just Waterloo going  
12 forward?

13 MS. BOYLE: For the products that we have sourced  
14 from other suppliers today, it's because of product that  
15 Waterloo had not bid on and would not provide to us in a  
16 timely manner. We can provide more details to future  
17 purchasing in the posthearing brief.

18 CHAIRMAN SCHMIDTLEIN: So can you be more specific  
19 about the products that they didn't bid on and wouldn't  
20 provide? What exactly were those?

21 MS. BOYLE: Absolutely. Waterloo previously, prior  
22 to the Period of Investigation, did supply stainless steel  
23 tool chests to Sears through their manufacturing facility in  
24 Nogales, Mexico. When they closed that Nogales, Mexico,  
25 plant, I believe in 2015--check that date--but when they

1 closed that plant, they discontinued their supply to Sears  
2 of stainless steel tool chests. And since they have not  
3 offered an alternate source or a way for them to provide us  
4 with that product--the Petitioner did state this morning  
5 that that is a relatively small segment of the industry. It  
6 is a smaller segment of what Sears does in sales to  
7 consumers, but it is an important segment to us. That was  
8 one. There's four items, two tool storage chests and combos  
9 that we did then go and find alternate sources for.

10 CHAIRMAN SCHMIDTLEIN: Okay, and they're basically  
11 stainless steel?

12 MS. BOYLE: Stainless steel, and in addition  
13 there's the one item that's been discussed that they're a  
14 higher price point, higher featured item that we asked  
15 Waterloo to quote that business. They chose not to bid on  
16 that business based on timing to market and the importance  
17 of timing to bring that to our consumer.

18 CHAIRMAN SCHMIDTLEIN: What were those features?  
19 And that was just in 2016, right?

20 MS. BOYLE: That was a product we launched in  
21 2016. That item, it's a 41-inch top chesting cabinet. It  
22 has a vertical power-tool storage drawer that has an  
23 integrated power strip. There is an integrated work surface  
24 that locks into place so you can use the item as a work  
25 surface in addition; integrated peg board. Those are a few

1 of the features that are on there.

2 That item they chose not to bid on. Per the  
3 Petitioner this morning, they were working on other projects  
4 for us in 2016 and they elected not to bid on that.

5 CHAIRMAN SCHMIDTLEIN: So are these the types of  
6 features that are the most recent innovations in--

7 MS. BOYLE: Those are a few of the most recent  
8 innovations.

9 CHAIRMAN SCHMIDTLEIN: What would be some other,  
10 the more recent innovations?

11 MS. BOYLE: Craftsman did just, in partnership  
12 with Waterloo for their integration into the tool boxes, we  
13 did just launch a connected blue tooth lock into tool  
14 chesting cabinets that launched at the end of 2016, as well.

15 The Petitioner does manufacture three of those  
16 items for us. The fourth is a stainless steel product that  
17 we import today. That lock connects with an app on your  
18 Smart Phone that allows you to unlock and lock your tool box  
19 from your phone.

20 CHAIRMAN SCHMIDTLEIN: Anything else that you can  
21 think of?

22 MS. BOYLE: There may be some manufacturers in the  
23 room--

24 CHAIRMAN SCHMIDTLEIN: Sure. Ms. Enger, do you  
25 want to talk about what are some of the innovations that

1 would be--

2 MS. ENGER: Absolutely. I'd be happy to do so.  
3 Some other innovations that have been in the marketplace  
4 over the last couple of years have included mobile work  
5 centers, which is the cabinet you see here with a wood top  
6 on that, to make it not just a tool cabinet but a functional  
7 work table as well.

8 They also have a unit that has an adjustable  
9 height top, so you can adjust, depending on your height or  
10 the work that you're doing. So it's got a crank and it goes  
11 all the way up about I think 12 inches, and then comes back  
12 down. That's been very innovative and a good seller in the  
13 market today.

14 Also, the integration of peg board on the back of  
15 these mobile work stations, as well. That's been a huge  
16 segment, just the mobile work centers in general have really  
17 I guess launched this overall just increase in the entire  
18 business and created almost a new niche category in the  
19 mobile work center.

20 Additionally, there's been magnetic accessories.  
21 That's also been new within the last year or so. If you  
22 look at a tool chest, there is a magnetic back wall, again  
23 just additional storage options for users.

24 Also, color options. That's been very unique.  
25 Textures. Different gloss levels. Different paint

1 finishes. You name it. That has been consumers'  
2 preferences. They want more colors, more options, not just  
3 in paint but also in drawer pulls, trims, caster colors, et  
4 cetera. It's just really about customizing the product for  
5 the user.

6 CHAIRMAN SCHMIDTLEIN: So are you able--I mean  
7 given that in your view demand has gone up and is going up,  
8 are you able to raise your prices when you innovate like  
9 this? You're adding more and more features.

10 MS. ENGER: Are we able--I mean features do cost  
11 money, yeah.

12 CHAIRMAN SCHMIDTLEIN: Right. So should we expect  
13 to see prices going up over the POI, given that I guess  
14 these products have been improving along the way, right?

15 MS. ENGER: They've been changing. I mean in  
16 regards to paint, paint--the price of that doesn't  
17 necessarily vary, but I think in regards to that it would  
18 probably be better for us to follow up in the  
19 postconference, or posthearing brief.

20 CHAIRMAN SCHMIDTLEIN: But can you say, I mean has  
21 Geelong tried to increase its price along the way? I mean  
22 you're one of the more innovative companies, right, in your  
23 view at least, right?

24 MS. ENGER: I think we'd be more comfortable  
25 addressing that in our posthearing brief.

1           CHAIRMAN SCHMIDTLEIN: Okay. Alright. Which, by  
2 the way, who does own Geelong? I know you said you're a  
3 shareholder in it, right? And your father is a shareholder  
4 in it. Is there a majority shareholder of Geelong?

5           MS. ENGER: There is, and it's a private equity  
6 firm.

7           CHAIRMAN SCHMIDTLEIN: It's a private equity firm?

8           MS. ENGER: Um-hmm.

9           CHAIRMAN SCHMIDTLEIN: Out of New York?

10          MS. ENGER: No, in Hong Kong.

11          CHAIRMAN SCHMIDTLEIN: Out of Hong Kong?

12          MS. ENGER: Yes.

13          CHAIRMAN SCHMIDTLEIN: I see. And who are the  
14 principals of that?

15          MS. ENGER: It's Orchid Asia. It's Gabriel Lee  
16 and his counterparts.

17          CHAIRMAN SCHMIDTLEIN: Would you mind just  
18 following up in the posthearing with that? I'd be curious  
19 as to what the corporate ownership is, or the ownership  
20 structure of--

21          MR. HANSON-CURRIE: Yeah, I can say it's actually  
22 a very complex structure there, the ownership. And there  
23 are U.S. citizens on it, as well, in Orchid. Also there's  
24 an eclectic bunch of shareholders as well.

25          CHAIRMAN SCHMIDTLEIN: Sure.

1                   MR. SPOONER: We will follow up with detail of  
2 course in our posthearing brief.

3                   CHAIRMAN SCHMIDTLEIN: Okay. I'd just be curious.  
4 I know a lot of times it's rather opaque. I mean this is  
5 not obviously a publicly traded company, so what the  
6 ownership structure is isn't immediately available unless we  
7 ask for it.

8                   MR. SPOONER: Yes.

9                   CHAIRMAN SCHMIDTLEIN: I'm just curious.

10                  MS. LeBELL: This is Julie LeBell with Hom-Steel.  
11 I just wanted to expand on some of the innovations that have  
12 been in the market. Like for Hom-Steel, one of our  
13 innovations a couple of years ago, and it's still on the  
14 market today, we are constantly evolving the product, as we  
15 were the first to market with a stereo and blue tooth system  
16 integrated into the tool box, in addition to the  
17 refrigerators.

18                  Just recently we paired up with Quikset to create  
19 and market their Smart Key technology, which they use for  
20 doors and quick-changing of locks is now integrated into our  
21 3,000 edition tool boxes. And that was about a year-long  
22 collaboration to integrate that technology, which is very  
23 specialized, and we're committed to our tool boxes.

24                  And just recently in Q-4 we launched a product  
25 that had both an integrated charging station which is new in



1 the way it's set up with LED lighting. And in addition, we  
2 invented a vertical drawer that has removable socket storage  
3 in it, which is a brand-new innovation and is different on  
4 the market.

5 And lastly I would say that just recently this  
6 year we launched a charging station that's on its own. It's  
7 been a best-seller for Lowe's for this year, and we're the  
8 only ones on the market with that at this time.

9 CHAIRMAN SCHMIDTLEIN: So are you able to raise  
10 prices when you add these sort of unique innovative features  
11 that no one else supplies on the market?

12 MS. LeBELL: That's hard to answer. Yes, only  
13 because each item that we innovate a new technology into is  
14 generally a brand-new item, so that pricing is integrated  
15 naturally into the price of that item. For instance with  
16 the 53-inch unit, which is our unit that had the stereo on  
17 it, as we've evolved it we have removed some features, added  
18 some new features and, yes, we've had price increases to  
19 accommodate those change in features.

20 MS. LeBELL: And historically as we've negotiated  
21 that with the price of steel and where the products are and  
22 our marketing funds, certainly.

23 CHAIRMAN SCHMIDTLEIN: Okay. Alright well my  
24 time is about to expire so I will yield the floor to  
25 Commissioner Williamson.

1                   COMMISSIONER WILLIAMSON: Thank you. And I also  
2 want to thank the Witnesses for coming in today. Just to  
3 follow up on the E-commerce questions and I guess one  
4 pointed to the number one seller for the online for Sears.  
5 It's the one behind the dais, right? Sometimes people point  
6 over there and I'm not sure exactly what they are pointing  
7 to.

8                   What I was wondering about is, and I'm trying to  
9 get a better idea of how big the online sales and the role  
10 they play but of course one thing, like this product, does  
11 one order it online and then still pick it up at the store?  
12 Or does Sears deliver it, I mean does Home Depot deliver it  
13 and unpacks and all of that? Because I can see a number of  
14 different ways that once these big things gets to someone's  
15 home and I don't know if that is and sort of who is  
16 providing this service and what does that say about how  
17 important online sales are in this market.

18                   MS. ENGER: Yes, this is Jean Enger with Geelong  
19 and in the post-hearing brief what we can certainly provide  
20 is more detail on our online sales and how that has grown  
21 during the POI. As far as this particular Husky product, it  
22 is just sold on HomeDepot.com.

23                   Home Depot provides the customer the flexibility  
24 to either have that item delivered to your home for a small  
25 fee or you can ship it directly to the store at no charge

1 and then pick it up at your leisure. So there's different  
2 ways that you can order and get that product shipped.

3 COMMISSIONER WILLIAMSON: Okay, if you get one of  
4 these big things from Amazon and you're a Prime Member do  
5 you still get it delivered for free?

6 MS. ENGER: (Laughs) I wish. Good question.

7 COMMISSIONER WILLIAMSON: Okay, so there are some  
8 limits to the -- okay. Now is it because of those -- it's  
9 nice to go online and say "oo -- I want that one" but then  
10 the question is how do you get it to wherever you want it in  
11 your house and that is, I was trying to figure out what role  
12 that plays in the significance of online sales.

13 MS. ENGER: Right, and I think it's again just  
14 you know our primary, obviously customers, The Home Depot  
15 because they offer the consumer that flexibility to ship it  
16 to your home or you can ship it to the store.

17 COMMISSIONER WILLIAMSON: Okay, thanks. Anybody  
18 that wants to add anything further post-hearing that's fine.  
19 I have a series of questions on this question of direct  
20 imports. How should the Commission assess the direct import  
21 purchase cost out of there, we have given the amount of it  
22 we have it seems to be the most significant items and bits  
23 of information that we have.

24 MR. MALESHAVICH: Bruce Maleshavich.  
25 Commissioner Williamson I touched on that in the testimony.

1 I think the problem is, the reason why the comparisons are  
2 not appropriate in this case is because it's missing the  
3 separate value for the services performed.

4 COMMISSIONER WILLIAMSON: Okay, let me stop you  
5 there, because that bothered me when you said that.

6 MR. MALESHAVICH: Okay.

7 COMMISSIONER WILLIAMSON: This morning the  
8 Petitioners were saying the big box stores, they are sort of  
9 the experts in getting it from the factory or the U.S. port  
10 and so that's going to be, that's what they're kind of good  
11 at. Yet you're sort of implying that that is a service that  
12 we should adjust this direct cost pricing information.

13 MR. MALESHAVICH: No, no I'm not suggesting any  
14 adjustment. I'm saying that the two are at different levels  
15 of trade. I do not think adjustment, a simple arithmetic  
16 adjustment captures that.

17 What I intended to say is that if you go back in  
18 a period of years, this is not the only industry that the  
19 Commission studied where that is the case. There was a  
20 small army of independent merchants that functioned as the  
21 importers, they stocked the goods, they marketed the goods,  
22 they got it to wherever they needed it to be at a certain  
23 time and that was a valuable function. They used to not  
24 only cover their costs but of course make a margin for  
25 themselves in the process.

1           What the big box stores have done in this case  
2           and we have seen it in other cases where big box stores were  
3           prominent in trade is they found that they could substitute  
4           their own supply chain agents and resources for the  
5           functions formerly performed by the independent distributors  
6           and save money, and they could do it better, but the cost of  
7           doing that is not zero. They don't just get an object on  
8           the boat and pick it up at the other end.

9           There is the purchasing function that in some  
10          cases, I can't speak for the companies represented at the  
11          table here but I know a number of the big box stores have  
12          their own offices in places like China with 50 or 75 people  
13          and their entire function is to do the purchasing and handle  
14          logistics of the supply chain.

15          COMMISSIONER WILLIAMSON: But my point was, that  
16          function of getting it from the factory into their store or  
17          onto the store floor is going to be the same whether it's  
18          for an imported product or for something they pick up at a  
19          factory in the U.S. That's the impression I was getting  
20          from them, from the port.

21          MR. MALESHAVICH: I will respectfully disagree.  
22          I think there's a big difference between a factory based in  
23          the United States, putting it on a truck or a train or  
24          whatever and going over land in the United States -- goods  
25          that you've produced yourself.

1           If you are a purchaser of goods being produced by  
2 others there is a lot more involved in quality assurance and  
3 management of the purchasing function to management of the  
4 logistics to get it to the United States and of the cost in  
5 doing that is not free. It's a cost that goes well beyond  
6 the direct cost of insurance, freight and duties.

7           COMMISSIONER WILLIAMSON: But see if those costs  
8 are expended overseas when it comes to the U.S. port, you  
9 were talking about what's the value of the product as it  
10 lands at a U.S. port.

11          MR. MALESHAVICH: No, I don't think that's a fair  
12 representation of that because the rules for valuing the  
13 goods is valuing the goods. It doesn't include the value of  
14 the services performed in procuring the goods, getting them  
15 to the United States. It's an independent value.

16          COMMISSIONER WILLIAMSON: So, are you saying we  
17 should adjust our pricing data?

18          MR. MALESHAVICH: No. I don't think --

19          COMMISSIONER WILLIAMSON: So what should we do  
20 with it then?

21          MR. MALESHAVICH: Ignore it. Rely on those  
22 traditional price comparisons of comparable products made at  
23 the same level of trade.

24          COMMISSIONER WILLIAMSON: Okay. This is a  
25 difficult issue that we're --

1 MR. MALESHAVICH: Yes, it is.

2 COMMISSIONER WILLIAMSON: -- wrestling with,  
3 that's why I'm asking these questions.

4 MR. MALESHAVICH: I'm delighted you are. It's a  
5 very important issue and it is difficult but I think the  
6 cleanest response is to look at the devil you know and make  
7 the appropriate conclusions.

8 COMMISSIONER WILLIAMSON: Assuming that's the  
9 appropriate devil to compare it with. That's the matter.  
10 Okay, so what type, you mentioned the logistics and quality  
11 assurance and stuff that's done overseas, so what other  
12 costs do direct importers incur in directly importing  
13 products?

14 MR. MALESHAVICH: I specifically discussed that  
15 yesterday with one of our witnesses here and I defer to him  
16 to elaborate on it. He is much closer to the real world in  
17 that respect than I am.

18 COMMISSIONER WILLIAMSON: Okay, thank you.

19 MR. MOYER: This is Dave Moyer from HMC Holdings.  
20 There are a lot of other costs that go into it. Tooling  
21 costs, for example. You know if you're producing something  
22 I heard we talked about something called "hard tooling". We  
23 produce hard tooling. It costs 30 to 40 thousand dollars  
24 for a piece of hard tooling to be done, all that stuff has  
25 to be considered into the cost.

1                   COMMISSIONER WILLIAMSON: Okay but my question is  
2 we're comparing product produced in the U.S. and the costs  
3 and selling prices of that to an imported product. Both the  
4 Domestic Producer and the Foreign Producers have to do that,  
5 isn't that correct? They have to deal with the hard tooling  
6 and all that?

7                   I'm trying to get to this question, we're talking  
8 about being at different levels of trade is what the  
9 contention is and I'm just trying to say what does that  
10 mean?

11                  MR. GRIMSON: I think, Commission Williamson, we  
12 would need one of the big boxes really to be answering that  
13 and maybe one of them will come through post-hearing brief.  
14 This is Jeff Grimson from R.M. Grimson.

15                  COMMISSIONER WILLIAMSON: Thank you. Good. So  
16 that question I was also going to ask, do direct importers  
17 incur costs of both the land and duty paid values? That's  
18 another way of asking the same question. Then I will ask  
19 one other question and you can just think about all of these  
20 questions post-hearing. What are the advantages and  
21 disadvantages of direct importing as compared to purchasing  
22 from an unrelated importer?

23                  So it's those sets of questions that I am raising  
24 questions about because you know, we have seen more and more  
25 of this direct importing and people are always raising



1 questions about it, it's different levels of trading and  
2 that you're not looking at the right thing. So the question  
3 is, what are we supposed to be looking at.

4 My time has just expired so thank you and I will  
5 look forward to your answers.

6 COMMISSIONER SCHMIDTLEIN: Okay, Vice Chairman  
7 Johanson.

8 VICE CHAIRMAN JOHANSON: Thank you, Chairman  
9 Schmidtlein. On page two of Waterloo's pre-hearing brief,  
10 Petitioners suggest that if Subject Imports were of truly  
11 higher quality than they should sell at a premium price.  
12 They highlight the testimony that the Vietnamese producer  
13 Clearwater Metals made during the Staff Conference.  
14 Clearwater Metals stated that the Chinese products undercut  
15 Vietnamese Subject Import sales at a shared customer, Home  
16 Depot during the Period of Investigation.

17 How do you all respond to this comment?

18 MR. SPOONER: Commissioner Johanson, I can only  
19 try to glean the intent of the Vietnamese respondent with  
20 that statement but when I read that statement my best  
21 interpretation of its meaning or intent, was for lack of a  
22 better way to put it, that it was a perhaps naive way and  
23 the Commission does see this at times of a respondent of a  
24 second or third country to try to get out of the thumb of  
25 the order by blaming another party but I wouldn't put much

1 stock in that claim by Clearwater.

2 MS. LEBELL: Hi, this is Julie LeBell with  
3 Hom-Steel. As I stated earlier in my statement that  
4 Hom-Steel's prices for their products are higher than  
5 Waterloo's, both at cost and at retail in our instance.

6 VICE CHAIRMAN JOHANSON: Okay, thank you Ms.  
7 LeBell and Mr. Spooner. This morning I believe that we  
8 heard the Domestic Industry state that retailers set these  
9 specifications for their brand. If all companies whether  
10 foreign or domestic have to bid on identical brand specs,  
11 aren't Subject Imports and Domestic tool chests clearly  
12 substitutable and competing on the basis of price?

13 MS. ENGER: This is Jamie Enger with Geelong. It  
14 is true that brands come out with specifications that they  
15 request but truly it is a collaborative effort between the  
16 supplier and the retailer to develop product that meets the  
17 consumer needs. They rely on our expertise of the market to  
18 help design the product.

19 We at Geelong have obviously enhanced, just an  
20 in-depth level of market knowledge. We also have dedicated  
21 a new design team, not only in China but also in the United  
22 States as well. So while they may come to the table with  
23 some specific requests, it is usually a collaborative design  
24 effort to finally meet the end product.

25 MS. BOYLE: This is Kelly Boyle from Sears. I

1 agree with Jamie's sentiment there and I believe the  
2 Petitioner Matt mentioned this in his testimony as well that  
3 a lot of the time it is a collaborative effort between the  
4 manufacturer and the retailer. As Craftsman brand we do  
5 have a standard and a spec that we have all of our tool  
6 storage apply to but we do work with our manufacturers as  
7 we're developing a product and that is a joint effort  
8 together.

9 VICE CHAIRMAN JOHANSON: Yes, Ms. LeBell.

10 MS. LEBELL: Yes, this is Julie LeBell with  
11 Hom-Still. At Lowes we do the same thing with the Cobalt  
12 branded product. Oftentimes the Cobalt team will come to us  
13 with innovations or ideas that they want us to quote.  
14 Generally we have to work together to revamp their ideas to  
15 make them work into their price points.

16 Other times and most times it's ideas and  
17 concepts we bring to them. They have their standard core  
18 line of product and they also want to provide innovations  
19 and promotional items outside of that core line. They're  
20 highly and almost entirely dependent on us as the  
21 manufacturer to come to them with those concepts and  
22 designs.

23 VICE CHAIRMAN JOHANSON: How often can all the  
24 manufacturers not meet the specs?

25 MS. LEBELL: I'm not sure that manufacturers

1 can't -- I think there are certain specs that some  
2 manufacturers can't meet. Like for instance, we at  
3 Hom-Steel manufacture our toolboxes with a lot of bends and  
4 that are highly specialized and very difficult to --

5 VICE CHAIRMAN JOHANSON: Bends? Like angles?

6 MS. LEBELL: Yes, like bending and angles that  
7 are very, very difficult to repeat. We've tried even  
8 domestically to have those same products made and most of  
9 the factories that we have approached here in the U.S.,  
10 smaller and some larger ones have said they can't do it  
11 because it is too difficult. It's a very, very specialized  
12 construction.

13 MR. HANSON-CURRIE: This is Allistar  
14 Hanson-Currie from Geelong. Yes, there is some degree of  
15 compromise sometimes in meeting the design requirements of  
16 customers. So I agree with what Ms. LeBell says.

17 VICE CHAIRMAN JOHANSON: Alright, thank you all  
18 for your responses. What has been the effect of the ongoing  
19 investigation on prices, quantities, prices, employment, the  
20 prices paid for the purchase of Waterloo by Stanley Black  
21 and Decker and other factors? Is there a broad  
22 post-petition effect that encompasses many facets of the  
23 investigation, including the sale of Waterloo?

24 MS. ENGER: This is Jamie Enger from Geelong.  
25 Since the Petition we haven't seen much change in our sales

1 numbers. It has been consistent.

2 VICE CHAIRMAN JOHANSON: Do you believe you've  
3 lost sales to the Domestic Industry?

4 MS. ENGER: Since the Petition, yes we have lost  
5 some sales of particular retailers to the Domestic Industry.

6 VICE CHAIRMAN JOHANSON: Okay. Thank you, Ms.  
7 Enger. Finally, this might be a good question for Ms. Boyle  
8 since she touched upon this issue earlier, why would a  
9 customer prefer a stainless steel tool chest? Is it a  
10 matter of quality and performance or is it a matter of look  
11 and style? And also, what is the price difference between  
12 tool chests of comparable specs, one being stainless steel  
13 and one not?

14 MS. BOYLE: From a customer perspective it's  
15 aesthetics. Do they prefer a painted toolbox or do they  
16 prefer a stainless steel toolbox? We have multiple  
17 toolboxes on our floor that have the same specifications in  
18 terms of drawer load rating, they both have integrated power  
19 however one is a stainless steel version and then one is a  
20 painted box so it comes down to the customer's preference  
21 from a material and a look and feel or look standpoint.

22 From a cost perspective, stainless steel does  
23 cost more than a painted toolbox, we can provide more  
24 details in post-hearing brief as to the specifics but a  
25 stainless steel box does ask for a premium.

1                   VICE CHAIRMAN JOHANSON: Where is stainless steel  
2 right now in the style cycle if that's the right word to put  
3 it? Things come and go as far as styles go?

4                   MS. BOYLE: From our perspective we have had  
5 stainless in our assortment for many years. As stated, the  
6 Petitioner used to supply us with stainless when they had  
7 their Nogales, Mexico factory. We had a stoppage of supply  
8 when they shut down that factory and we were able to  
9 reintroduce it last year with our sourcing in China.

10                   That is an item that we still see sales on,  
11 strong sales on that we still see the customer having  
12 interest in. We see that continuing and I don't have data  
13 around the home appliance industry but as an example you  
14 still see strong sales of stainless steel in the home  
15 appliance industry. It is just a preference in terms of  
16 material and aesthetic.

17                   VICE CHAIRMAN JOHANSON: Okay, because I think,  
18 maybe I'm wrong but I think with stainless steel  
19 refrigerators that cycle has maybe gone down a bit.

20                   MS. BOYLE: You are starting to see and again I  
21 don't have specific data to that industry, being part of the  
22 same corporation with the Kenmore brand we do work closely  
23 with that team. You are starting to see some other trends  
24 in the stainless industry as well with black stainless and  
25 some other features that are still within that material and

1 that segment.

2 VICE CHAIRMAN JOHANSON: Okay, thank you. My  
3 time is about to expire so I'm going to end my questions  
4 here. Thank you all.

5 CHAIRMAN SCHMIDTLEIN: Commissioner Broadbent?

6 COMMISSIONER BROADBENT: Do you all have any  
7 consumer reports or consumer reviews comparing the various  
8 brands of tool chests? I have not seen anything on the  
9 record like that.

10 MR. SPOONER: Others, of course, should pipe up  
11 Commissioner Broadbent if they're aware, but we will be sure  
12 to look and provide a response in our post-hearing brief.

13 COMMISSIONER BROADBENT: Okay, I'm still trying  
14 to get my head around the concept of like a high-style tool  
15 chest, what that looks like, not related to this question,  
16 but just related to the last question of Commissioner  
17 Johanson. I mean which of these lined up here are thought  
18 to be the most stylish or the most cutting edge?

19 MS. ENGER: What we see, so far as sales in the  
20 market, is the most cutting edge would be the Husky unit  
21 over here. This is a 56-inch wide. It has a tall till for  
22 power tool storage. It has an integrated power strip in the  
23 back of it. It has eight outlets, along with four USB  
24 ports, so that way you could store your power tools  
25 overnight, lock it up, and go. It also features soft close

1 draw slides, which is a high-end feature on a tool chest  
2 and cabinet. Additionally, it also has 2500-pound load  
3 rated casters, so it's the epitome of very heavy duty.

4 COMMISSIONER BROADBENT: So if the guy stands  
5 next to that, he'll get a lot of dates because he --

6 MS. ENGER: Absolutely, absolutely. But we see  
7 the trend certainly headed more in this type of direction.  
8 It's a feature-rich item.

9 COMMISSIONER BROADBENT: Good, okay, thank you.

10 Mr. Spooner, I'll ask you a question that I  
11 asked the Petitioners' counsel. With only one large U.S.  
12 producer, what would be the effect of putting prohibitive  
13 ADCBD orders on imports from the only two alternative  
14 sources? Would this create an anti-competitive market for  
15 tool chests in the U.S.?

16 MR. SPOONER: Yes, Commissioner Broadbent. I  
17 think our view of the record is that it would be clear that  
18 prohibitively high -- well, regardless of the size of the  
19 tariffs, tariffs that are high enough to decrease or cut off  
20 supply to the U.S. market would create an anti-competitive  
21 situation in the tool chest industry.

22 We know from the record -- and I'm sorry if I'm  
23 conveying what's painfully obvious, but we have Waterloo as  
24 the only significant supplier in the United States and we've  
25 heard ample testimony about how Waterloo has limited



1 capacity to respond to orders and can only supply -- has  
2 failed to bid on many products because they, for whatever  
3 reason, will not produce them. So tariffs that limit the  
4 ability of Sears, Home Depot, Lowe's, and others to go  
5 offshore to source the products that they need that they  
6 can't get from Waterloo would obviously cause an  
7 anti-competitive situation for retailers.

8 COMMISSIONER BROADBENT: Okay.

9 Ms. Boyle from Sears, you testified that Sears  
10 has reduced its purchases of tool chests over the period.  
11 Why is that? Are your competitive offering lower prices, as  
12 testified this morning?

13 MR. O'BRIEN: If I can just start this,  
14 Commissioner, I think it's impossible to just segregate this  
15 particular product line from Sears's conditions over the  
16 last few years and I mean those conditions are well  
17 documented. They affect the company-wide product offerings,  
18 including store closings. We heard about online sales,  
19 other disruptions in the retail market and to say that there  
20 is a specific reason affecting these products as opposed to  
21 others I don't think that's anywhere in the record and I  
22 honestly don't think it's ascertainable right now.

23 What I do think is absolutely clear are the  
24 conclusions that the Petitioner is drawing, one of which is  
25 that Sears has gone offshore because of low prices is

1 absolutely false. There's no other way to put it. There is  
2 not a shred of evidence supporting that. And the idea that  
3 Sears is using quotes from offshore to leverage Waterloo  
4 down in price is also without any evidence whatsoever in the  
5 record. So I think the conclusions they're trying to draw  
6 are simply without a basis. So let me just stop right  
7 there.

8 MS. ENGER: In addition to Sears obviously  
9 shutting stores and not having the space to sell the  
10 product, you have other retailers in the market that are  
11 trying to capture that market share and they're doing so  
12 aggressively, particularly, the Home Depot. They've grown  
13 their footprint of this product category year-over-year in  
14 the stores. They advertise much more frequently. They  
15 bring in special new products during key periods, such as  
16 Father's Day and Christmastime, so you see -- in addition to  
17 Home Depot -- I'm sure Ms. LeBell can talk as well about  
18 Lowe's is that they've grown the category to capture some of  
19 the lost market share from Sears.

20 MS. LEBELL: This is Julie LeBell from Home  
21 Steel. And yes, Lowe's specifically invited and had the  
22 last line review to expand their line to specifically go  
23 after the Craftsman business at Sears. That was what their  
24 desire was and their point in bringing in Waterloo. And  
25 expanding that lower price point and the competitive

1 products because a 27-inch product is probably the number  
2 one selling size, next to the 41 and it's in a market that  
3 Lowe's didn't have a lot of customers on. That's where they  
4 were missing their customers and so they aggressively went  
5 after that. They couldn't get the pricing that they needed  
6 from an importer, so they went to the domestic, which is  
7 Waterloo.

8 COMMISSIONER BROADBENT: Okay. Let's see, the  
9 importers of two countries importing in this investigation,  
10 China and Vietnam, only really supply the U.S. market.  
11 Aren't there other large markets out there in the world that  
12 they could be selling to outside of the U.S. for tool chests  
13 and cabinets?

14 MR. HANSON-CURRIE: We have a lot of customers  
15 outside the U.S. We sell in Mexico, in Canada, all of  
16 Europe, South Africa, Australia, and New Zealand. Our  
17 company started in Australia and a big chunk of our sales is  
18 still in Australia, so we have sales pretty much all over  
19 the world -- all around the world.

20 MS. LEBELL: We also sell all over the world.  
21 We sell to Mexico, Australia, Canada, Germany, Russia, and a  
22 couple other countries.

23 COMMISSIONER BROADBENT: Okay. I wanted to make  
24 sure I understood that the status of the production was in  
25 non-subject countries and particularly Mexico. You

1 mentioned that they had shut down in Mexico and then that  
2 business had moved into an import situation from a subject  
3 country, I think, but if someone could describe to me what  
4 was happening in Mexico on this product and what's going on  
5 there now.

6 MS. ENGER: I think if I understand your  
7 question it's more regarding the manufacturing in Mexico; is  
8 that correct?

9 COMMISSIONER BROADBENT: Yeah, manufacturing  
10 non-subject imports, meaning the production that's produced  
11 in Mexico is it still happening in Mexico and coming to the  
12 U.S.?

13 MS. ENGER: No.

14 COMMISSIONER BROADBENT: It's no longer  
15 happening?

16 MS. ENGER: It's no longer happening. They shut  
17 their -- Waterloo shut their facility down in Mexico in  
18 2015.

19 COMMISSIONER BROADBENT: And why did they do  
20 that, do you think?

21 MS. ENGER: Kelly might be able to answer a  
22 little bit better than I, but my understanding is that it  
23 was just no longer a viable business for them and they moved  
24 some other manufacturing equipment up to their Sedalia,  
25 Missouri facility.

1                   COMMISSIONER BROADBENT: Okay. And so that was  
2 the bigger sized.

3                   MS. ENGER: Right, mm-hmm, correct.

4                   MS. BOYLE: To confirm a comment that Jamie  
5 made, they did move. They chose not to move stainless steel  
6 products at that time to their Sedalia, Missouri factory.  
7 They did move production of some of our larger tool chests  
8 and cabinets to the Sedalia plant, so 52-inch rolling  
9 cabinets, for example, were produced in the Mexico factory.  
10 Those did move to Sedalia, Missouri at that time.

11                   COMMISSIONER BROADBENT: And I apologize if this  
12 has been covered, but why did they not move the stainless  
13 steel type of product there?

14                   MS. BOYLE: From their communication to myself?

15                   COMMISSIONER BROADBENT: Yeah.

16                   MS. BOYLE: From my experience on this team,  
17 they chose not to move that production to Sedalia, Missouri.  
18 That was not a product that they were giving alternative to  
19 Sears to source; hence, why we then took that to China.

20                   COMMISSIONER BROADBENT: Okay. And any idea why  
21 they didn't want to do that in Sedalia?

22                   MS. BOYLE: No.

23                   COMMISSIONER BROADBENT: Is there something  
24 different about stainless steel that --

25                   MS. BOYLE: I can't speak to that.

1                   COMMISSIONER BROADBENT: Okay, I think that  
2 concludes my questions for right now.

3                   MS. LEBELL: In regards to a probable reason why  
4 Waterloo did not continue their stay in this business is  
5 because they've iterated several times and especially to my  
6 customer is that stainless steel is a declining business and  
7 it's not something that they wanted to invest in because  
8 it's a product that they felt like customers weren't buying.  
9 But I can tell you that it is the number one seller at  
10 Lowe's is the 41-inch stainless steel tool box and they're  
11 not wanting to give up that product line for stainless  
12 steel, the entire product line.

13                   COMMISSIONER BROADBENT: Okay, so there's not  
14 really another reason, other than they just made a bad  
15 choice. That it's still in demand, but they're assessing  
16 that it wasn't in demand.

17                   MS. LEBELL: I believe so, yes.

18                   COMMISSIONER BROADBENT: Alright, thank you.

19                   CHAIRMAN SCHMIDTLEIN: Ms. LeBell, I want to go  
20 back to something you said in talking about that 2017 Lowe's  
21 sale to Waterloo and that Lowe's was aggressively wanting to  
22 expand its business in the 41-inch, I think, is what you  
23 mentioned as well as 27, maybe?

24                   MS. LEBELL: Twenty-seven.

25                   CHAIRMAN SCHMIDTLEIN: Twenty-seven, okay. And

1 that they couldn't get the price they wanted from an  
2 importer, so they went to Waterloo. So in your experience,  
3 that sale was based on price?

4 MS. LEBELL: Yes. I think there's a number of  
5 conditions and factors that go into the pricing and how  
6 Lowe's made their decision to go with Waterloo. One is I'm  
7 not sure of the exact number of other vendors who bid on the  
8 whole line. I know there were several others. I do know  
9 for a fact that their pricing was better than mine. I was  
10 told repeatedly that I was completely out of the ballpark  
11 and not even close to the pricing that Waterloo was  
12 offering.

13 The second piece of that is the fact that  
14 Waterloo has the domestic distribution and that's important  
15 because even if -- and I'm not entirely sure what their  
16 lead times are, but say if we had the same lead time for  
17 production of the product at 60 days or 45 days, it still  
18 takes 60 days for my product to land in the U.S. and then  
19 make it through the distribution centers to the store;  
20 whereas, at the end of their production they can ship  
21 directly to the distribution center or the store, cutting  
22 out a good month to two of transit.

23 That frees up inventory dollars for Lowe's and  
24 improves their bottom line and their GEMROY, which is very  
25 appealing to them and is especially appealing to Lowe's

1 right now. So that was a huge factor in them choosing that.  
2 It was a two-tiered.

3 CHAIRMAN SCHMIDTLEIN: I see.

4 MS. LEBELL: And certainly the price.

5 CHAIRMAN SCHMIDTLEIN: Right, okay. I mean I  
6 guess that's what -- is it you all's view that price is as  
7 important a factor in other sales. I assume that not just  
8 this Lowe's 2017 bid, but across all the bids for these  
9 purchasers like Home -- I mean Home Depot and Lowe's hold  
10 themselves out as being the low price seller, right? That's  
11 why you go to those places, or Costco or whoever else --  
12 Wal-Mart, right? I just want to make sure I'm clear.  
13 You're not arguing that price isn't important in these  
14 decision on who to purchase from or are you? Are you saying  
15 that whenever Waterloo loses a sale it's because of quality  
16 and innovation, but if they win a sale it's because of  
17 price?

18 MS. LEBELL: No. In this instance it was  
19 definitely because of price. Their pricing was lower than  
20 ours. For the most part, I believe it's a number of factors  
21 that contribute to whether or not a retailer will buy from a  
22 certain supplier. The factors could be price. It could be  
23 the innovations. It could be patented innovations that they  
24 may have that the offer an exclusive. I can speak on Lowe's  
25 behalf that exclusivity is huge for them and that will sway



1 their decision one way or other with disregard for what the  
2 price is. Distribution channels is a very important factor  
3 and payment terms.

4 CHAIRMAN SCHMIDTLEIN: Exclusivity on features?

5 MS. LEBELL: On offerings of a feature or a  
6 product, correct.

7 CHAIRMAN SCHMIDTLEIN: Okay, right.

8 MS. LEBELL: Oftentimes, I'll offer exclusivity  
9 to Lowe's, which limits me, of course, across other  
10 retailers; but it spins their decision as to whether they'll  
11 go with that particular product with me. So it's not one  
12 factor that goes into the decision-making. Timing is huge.  
13 We know that Q4, which is the last quarter of the year is a  
14 big quarter as is Q2 for Father's Day and you would think  
15 that knowing that those two seasons come up annually that  
16 we'd have the plan for those a year or two in advance. That  
17 is very often and rarely the case. It is oftentimes  
18 planned at the last minute and so your turn time to get  
19 those products created, developed, inputted into the system  
20 and then manufactured and shipped on time can be a very  
21 short window of six months.

22 I mean I believe Home Depot does their system a  
23 little bit different, but we're at Q2 right now and Lowe's  
24 hasn't finished up their plans for Father's Day and they  
25 have to be shipped and in store by May, so our turn time has

1 to be very, very quick. We have to flexible and ready to  
2 move and make what they want in addition to bringing them  
3 those concepts.

4 CHAIRMAN SCHMIDTLEIN: So do you just sell to  
5 Lowe's?

6 MS. LEBELL: We don't just -- we sell  
7 internationally as well.

8 CHAIRMAN SCHMIDTLEIN: But in the United States  
9 it's just Lowe's.

10 MS. LEBELL: In the United States, we sell  
11 exclusively to Lowe's for tool storage products.

12 CHAIRMAN SCHMIDTLEIN: And that's pursuant to --  
13 are you related to them from a corporate standpoint?

14 MS. LEBELL: We are not. We started out in this  
15 category with Lowe's and have had a long-term, very good  
16 relationship with them. And from their point of view, it's  
17 been -- they're not a retailer that tends to want to have  
18 multiple vendors in that same category. They started with  
19 two or three actual vendors in our category and decided to  
20 go down to one. And we made products that we weren't  
21 comfortable making that were outside of our purview because  
22 we did as a courtesy and a favor to them because they wanted  
23 to consolidate down to one vendor and that was their choice  
24 and decision to make.

25 In addition to that, because they're always

1 wanting innovations and changes, whenever we come up with  
2 those ideas -- and it's very difficult. It is a square box  
3 with some drawers in it and a lid, so innovating new ideas  
4 is very, very difficult and so whenever I've offered those  
5 concepts to Lowe's they've accept them and they've wanted  
6 exclusivity, so it's limited our going to other retailers.

7 CHAIRMAN SCHMIDTLEIN: So do they guarantee you  
8 a certain amount of sales every year?

9 MS. LEBELL: They do not.

10 CHAIRMAN SCHMIDTLEIN: Then why are you  
11 exclusive with them?

12 MS. LEBELL: Because we've had a long-term  
13 relationship with them and they've continued to buy from us  
14 and expressed their desire to continue to purchase from us.

15 CHAIRMAN SCHMIDTLEIN: But do you compete on  
16 every bid?

17 MS. LEBELL: On every item, correct. And we're  
18 like for -- from the slide that we showed earlier, we did in  
19 the last line review, lose a large number of our skews to  
20 Waterloo. We lost skews that we had in line and we lost  
21 other skews to them that we actually bid on as well. We  
22 were told our pricing was entirely too high. So we've  
23 chosen to do is focus on the higher-price point items that  
24 have features that are not otherwise on the market to where  
25 we don't have competition and where Waterloo doesn't compete

1 with us because they're our ideas and our concepts that  
2 we're bringing to Lowe's. They want that differentiation  
3 and we bring that to them and as long as we continue to  
4 bring that to them, I feel confident in our relationship.

5 CHAIRMAN SCHMIDTLEIN: Okay.

6 MS. LEBELL: If I could just say, I know it  
7 sounds a little like we've got all our eggs in this one  
8 basket and that's scary for us too, but it's been a good  
9 relationship and we've been an exceptional vendor for  
10 Lowe's. Our report cards are great and so there's been no  
11 reason for us to divest from that.

12 CHAIRMAN SCHMIDTLEIN: Okay. And is HMC  
13 Holdings are you an importer? Are you related to this Home  
14 --

15 MS. LEBELL: Not. That's a separate company.

16 CHAIRMAN SCHMIDTLEIN: Okay. And so what is HMC  
17 Holding?

18 MR. MOYER: This is David Moyer, HMC Holdings.

19 CHAIRMAN SCHMIDTLEIN: And so what do you  
20 import; what'd you do?

21 MR. MOYER: Well, actually, we're very unique in  
22 this. As I said, we import, we domestically produce, and up  
23 until last year we actually owned our own factory in Van  
24 Wert, Ohio. It's actually the oldest industrial tool box  
25 manufacturing facility still running today even in Ohio.

1                   CHAIRMAN SCHMIDTLEIN: You're making in-scope  
2 product.

3                   MR. MOYER: In and out-of-scope product.

4                   CHAIRMAN SCHMIDTLEIN: In and out-of-scope. Did  
5 you submit a questionnaire as a U.S. producer?

6                   MR. MOYER: We sold them a year ago, so we no  
7 longer own that factory. Actually, we sold it to Waterloo's  
8 customer, Waterloo's second largest customer in the  
9 industrial -- what Waterloo refers to as the industrial  
10 market, which is a completely different subject, but what  
11 they refer to as the industrial market we sold their number  
12 two customer our factory.

13                   CHAIRMAN SCHMIDTLEIN: I see, okay, but you were  
14 making in-scope product up until a year ago?

15                   MR. MOYER: We were making both and selling it  
16 in the retail jobber and industrial channels.

17                   CHAIRMAN SCHMIDTLEIN: I see, okay. Okay, I  
18 assume that if you were making both you should've -- you  
19 would've been asked to submit a U.S. producer questionnaire?

20                   MR. GRIMSON: Commissioner Schmidtlein, the  
21 issue is HMC doesn't own that company and sold it before  
22 this case was even filed.

23                   CHAIRMAN SCHMIDTLEIN: I see, so right now --

24                   MR. GRIMSON: I don't know where those  
25 questionnaires went or whether -- and he doesn't know

1 whether they were answered.

2 CHAIRMAN SCHMIDTLEIN: Okay, so what do you do  
3 now?

4 MR. MOYER: We currently still import tool boxes  
5 from China and we also source domestically also from other  
6 manufacturers making metal cabinets and what have you in the  
7 U.S.

8 CHAIRMAN SCHMIDTLEIN: And what brand do you --  
9 and then do you sell to retailers?

10 MR. MOYER: Yes. We have our own brand,  
11 Homemac. It's been around since 1947.

12 CHAIRMAN SCHMIDTLEIN: Okay.

13 MR. MOYER: And we sell to actually NAPA. Any  
14 tool box you walk into NAPA and purchase will be a Home Mac  
15 tool box. We also serve the agricultural farm fleet and Ag  
16 business. We also service the jobber and the industrial  
17 market. And the industrial market when we say it's both the  
18 jobber and the facinal ranger, are the MSU's that erode.

19 CHAIRMAN SCHMIDTLEIN: But you're importing  
20 in-scope product right now.

21 MR. MOYER: And out-of-scope.

22 CHAIRMAN SCHMIDTLEIN: And out-of-scope, right.  
23 Okay.

24 MR. GRIMSON: And I think Commissioner  
25 Schmidtlein, Mr. Moyer's main -- one of his two main points

1 was that if this is not a continuum case -- you know we've  
2 never seen one here. If you look around the room at these  
3 samples and if we, the Respondents, were trying to argue for  
4 a clear break you can bet that we would hear from the  
5 Petitioners there's no clear dividing line here. And we've  
6 heard testimony today that manufacturers make both. He just  
7 told you that. We note that Waterloo says they make both.  
8 We heard that they're sold through all channels and that the  
9 online market is growing and people don't care what you call  
10 it they want the features that are on there. And that you  
11 can't look at any of these and tell what gauge steel they're  
12 made of, that the difference between an in and out-of-scope  
13 product might be one pound on a very complicated chart that  
14 Commerce put out, so I mean this is very much like a year  
15 ago when you threw out the iron mechanical transfer device  
16 cases where you had the Petitioners trying say there's a  
17 clear dividing line at 4 inches and above and just none of  
18 the data was supporting that. And that was a case where  
19 they wanted a clean break, but there really wasn't one in  
20 the data and I think that what he is reinforcing here is  
21 from his experience. These are just words. They don't flow  
22 through to any clear breaks in the industry data.

23 CHAIRMAN SCHMIDTLEIN: Okay, alright, my time is  
24 up. I have a couple more questions, but we'll come back to  
25 them.

1                   MR. MALASHEVICH: The -- Bruce Malashevich from  
2                   ECS. All I could say is we will do our best to answer your  
3                   question fully.

4                   COMMISSIONER WILLIAMSON: Okay, thank you. As I  
5                   said, this is something that keeps coming up a lot, so we  
6                   might as well get educated on it now.

7                   MR. MALASHEVICH: I think it's quite  
8                   appropriate, because I just speculate the Commission's going  
9                   to see more and more of these cases at least for  
10                  consumer-oriented products

11                  COMMISSIONER WILLIAMSON: Okay, good. Thank  
12                  you. And then, let's see, I was wondering your views on  
13                  what is significant of SBD's purchase of Craftsman brands?  
14                  How likely is it to affect the U.S. market? I know there's  
15                  a bit of speculation on this, but any thoughts on that you  
16                  want to share would be useful.

17                  MR. FISCUS: I'm sorry, did you mean -- you mean  
18                  Stanley's purchase?

19                  COMMISSIONER WILLIAMSON: Yes, you're correct,  
20                  yeah, Stanley's purchase.

21                  MR. FISCUS: Yeah, okay.

22                  COMMISSIONER WILLIAMSON: Yeah.

23                  MR. FISCUS: Stanley's purchase and your  
24                  question again? Jon Fiscus with Geelong.

25                  COMMISSIONER WILLIAMSON: And how like -- and I



1 was wondering how likely is that -- what is the significance  
2 of that purchase in your opinion and how likely is this to  
3 affect the U.S. market? What effect might it have on the  
4 U.S. market?

5 MR. FISCUS: So you're referring to their  
6 purchase of the Craftsman tool storage or the Craftsman  
7 brand or the Craftsman tool storage Waterloo plant? We're  
8 not sure which --

9 COMMISSIONER WILLIAMSON: I was talking about  
10 the Craftsman brand?

11 MR. FISCUS: Oh, the brand itself?

12 COMMISSIONER WILLIAMSON: Yes.

13 MR. FISCUS: Jamie, I think you'd probably want  
14 to --

15 MS. ENGER: Yeah, Jamie Enger from Geelong. I  
16 think it was recently announced in the Q3 earnings call with  
17 Stanley Black and Decker that they are going to be launching  
18 the Craftsman brand exclusively at Lowes. So that will have  
19 certainly a large impact on the home improvement market with  
20 the Craftsman brand entering into the number 2 home  
21 improvement center. It remains to be seen of what that  
22 impact will be, but they're launching it, I believe, in Q2  
23 of 2018.

24 COMMISSIONER WILLIAMSON: Okay, good. Thank  
25 you. Anybody else? Yeah.

1                   MR. O'BRIEN: Yes, so it's Kevin O'Brien, Baker  
2                   & McKenzie. In Exhibit 1 of our brief, we included a press  
3                   release of the purchase of the brand. And as part of that  
4                   release, I don't want to misstate the number, but Stanley  
5                   Black and Decker provides an estimate of the growth of the  
6                   Craftsman products that they anticipate over the next 10  
7                   years.

8                   And it -- it is certainly reasonable to expect  
9                   that tool chests will be part of the growth that they are  
10                  projecting. So I think it is reasonable to anticipate a  
11                  significant increase in sales of Craftsman product.

12                  COMMISSIONER WILLIAMSON: Okay. Thank you.

13                  MR. GRIMSON: Commissioner Williamson?

14                  COMMISSIONER WILLIAMSON: Sure.

15                  MR. GRIMSON: Jeff Grimson, Mowry & Grimson  
16                  here. I think that one of the purposes of us putting the  
17                  timeline of the acquisition up on the screen was to walk  
18                  through the timing of the filing of this case in the context  
19                  of how the acquisition of the brand and then Waterloo  
20                  unfolded.

21                  And I guess the implication that we see from  
22                  this time line is that the acquisition of the Craftsman  
23                  brand has had a major impact on this market, because it  
24                  could have led directly to the filing of this case. If you  
25                  think about it, your Waterloo -- your brand that you were

1 selling in a pretty much stable, you know, 70 year brand  
2 history market at Sears got bought up by Stanley Black and  
3 Decker, who's an importer of other product, who announces  
4 that they're about to sell your Craftsman brand through  
5 Lowe's, you might begin to wonder whether that's good or bad  
6 for you.

7 And one way to change the playing field a little  
8 bit is about a week after they visit you, to file a dumping  
9 case.

10 COMMISSIONER WILLIAMSON: Okay.

11 MR. GRIMSON: I'm talking about we heard this  
12 morning that Stanley Black and Decker was onsite at Waterloo  
13 in late March. And then April 7th, the Waterloo folks  
14 signed the certifications and the petition. And we have a  
15 petition pop out here. Okay, that excludes industrial. So  
16 this obviously -- we don't know this -- we see how the facts  
17 are unfolding. We asked you to gather the data and I heard  
18 this morning that maybe you have something and we'll see it  
19 in an APO release I hope before the post-hearing brief, but  
20 all we got and -- at the pre-hearing brief was one small  
21 fact --

22 COMMISSIONER WILLIAMSON: Okay.

23 MR. GRIMSON: -- about this whole thing.

24 COMMISSIONER WILLIAMSON: Okay, thank you.

25 MR. GRIMSON: Then don't worry, industrial is

1 not included. Then don't worry, service carts aren't  
2 included, which you import. And then finally, why not just  
3 buy us? You know, that's the picture. So you know, in that  
4 chronology, the filing of the dumping case, you could trace  
5 that back in a lot of ways originally to the sale of the  
6 Craftsman brand itself. So we think it has a big impact.

7 What all that matters in your analysis is up to  
8 you all. We think it's a condition of competition, the way  
9 the brands operate here. And you have one company that now  
10 controls up and down really the single most important brand.

11 COMMISSIONER WILLIAMSON: Okay, thank you for  
12 that answer. Mr. Spooner, were you --

13 MR. SPOONER: Commissioner really --

14 COMMISSIONER WILLIAMSON: Yeah.

15 MR. SPOONER: If I could briefly, Commissioner  
16 Williamson.

17 COMMISSIONER WILLIAMSON: Sure.

18 MR. SPOONER: This is Mr. Spooner. So an  
19 indirect point, but perhaps one worth making that hasn't  
20 been made yet. Of course, the Commission also has to  
21 consider threat.

22 COMMISSIONER WILLIAMSON: Uh-huh.

23 MR. SPOONER: And in that respect, it's  
24 important to note that Stanley bought both the Craftsman  
25 brand and then bought Waterloo and has repeated -- has said

1 several times at this hearing that it's a mantra at Stanley  
2 that they produce where they sell. Essentially, that  
3 they're committed to continuing to produce at Waterloo, so I  
4 would just urge the Commission to sort of factor those  
5 assertions from Stanley into its analysis as it considers  
6 whether or not there's threat of imports.

7 COMMISSIONER WILLIAMSON: Okay. Okay, thank  
8 you. Good. Just one last question, and I'm not sure if  
9 there's any significance, but given the cost of some of  
10 these items, and I guess how long they're -- is -- in  
11 looking at the future demand, is replacement of these items  
12 something that one takes into account? No one's mentioned  
13 it today, but I just -- knowing the two chests that I have,  
14 even though it's not one of these, I had it for 30 years.  
15 So I was just curious whether or not replacement upgrading,  
16 what role they play in demand?

17 MR. FISCUS: Jon Fiscus, Geelong. I -- you  
18 know, that's always a good question that everybody asks from  
19 time to time is what -- how long do they last and when do I  
20 replace them? And a lot of people, it's really a question  
21 of excuse me, I've got say a 26-inch toolboxes like that,  
22 okay, but there's a bigger variety of tools out there.  
23 There's -- you know, there's more to buy. There's more to  
24 store these days. And what a lot of this is is they're  
25 upgrading to bigger styles with more features and benefits.

1                   You see a lot of it. These things do wear out.  
2 They rust out. They'll do a lot of things, but especially  
3 with the advances in a lot of these products, particularly  
4 the ball bearing slides. I mean, these -- all these units  
5 used to have years ago, it wasn't that long ago, where they  
6 had Ibeam drawer slides. And Ibeam drawer slides they would  
7 call them friction slides, right?

8                   But now so much of this has been replaced with  
9 different types of ball bearing slides, whether it's just  
10 slides with stops at the back of them, or there's soft  
11 closed slides. So there's been a lot of advancement and  
12 features in this, which is great for the consumer.

13                   So what you're seeing is upgrades and a lot of  
14 the benefits and also they get into larger sizes,  
15 workbenches, et cetera, that are certainly more versatile  
16 and have a lot more utility to them, than some of the older  
17 stocks.

18                   So I mean, you could look at it a lot of ways,  
19 but it's -- we think it continues to be a good market. It  
20 continues to be a good growth market out there, because of  
21 the additions and the new things that are being added. And  
22 certainly, the wider array of things you can store today  
23 versus what you had say 20 years ago. Thank you.

24                   COMMISSIONER WILLIAMSON: Okay.

25                   MS. LEBELL: Julie LeBell with Hom-Steel.

1                   COMMISSIONER WILLIAMSON: Yeah.

2                   MS. LEBELL: I just wanted to expand on that a  
3 little bit. I know that there's always some concern for  
4 market saturation in any product and item that you have.  
5 But I also think that in our category, that our items are  
6 being used in areas where they weren't previously used,  
7 whether it be in shops, in retail store fronts, for storage,  
8 for cash registers, in hospitals, or in doctors' offices.  
9 So we've had an expanded audience of customers than I think  
10 we had in previous years, because of the new colors, the new  
11 shapes, the new features and innovations. So our types of  
12 customers have expanded.

13                   MR. HANSON-CURRIE: Yeah, Alistair  
14 Hanson-Currie, Geelong. Just to reiterate what Julie says  
15 is there are many, many uses now for toolboxes that didn't  
16 previously exist. And we know they're used in tattoo  
17 parlors, for example. And also, you can use them at home to  
18 put clothes in there and also plastics for the kitchen as  
19 well.

20                   So although the product is the same in many ways  
21 as it has been for a long time, though Jon rightly says  
22 features have improved. The uses of them has improved  
23 massively and that's improved -- increased the market.

24                   COMMISSIONER WILLIAMSON: Okay. Good. Okay,  
25 thank you for those answers. That was very helpful. I --

1 thank you.

2 CHAIRMAN SCHMIDTLEIN: Vice Chairman Johanson,  
3 do you have any questions?

4 VICE CHAIRMAN JOHANSON: I have no questions.

5 CHAIRMAN SCHMIDTLEIN: No? Okay. Commissioner  
6 Broadbent?

7 COMMISSIONER BROADBENT: No questions.

8 CHAIRMAN SCHMIDTLEIN: No more questions. Okay.  
9 I just had a couple of follow up questions. Excuse me. One  
10 for Mr. Grimson. You were relaying the chronology of the  
11 visit to Waterloo and then the filing of this case and so  
12 forth. And I think you were suggesting that they filed this  
13 case in order to make themselves more attractive purchase  
14 target if I understood you correctly.

15 And so, given that you're counsel in this case,  
16 you have access to the APO, petitioners have included in  
17 their confidential slides a list of customers that they  
18 attempted to sell or did sell to during the POI in addition  
19 to reprinting some correspondence with different purchasers  
20 that are using subject imports to leverage down the price.  
21 So I just wonder could you -- do you have a reaction or a  
22 response? Like how should we take this into account?

23 In other words, you're suggesting that this  
24 isn't about import pricing. This isn't about being injured.  
25 This is really just about, you know, one private equity



1 group trying to sell to a big corporation?

2 MR. GRIMSON: Right. And then -- and on that  
3 point, I think in the joint respondents' brief, in the  
4 confidential version, the sequence of the purchase price as  
5 we know it at least was laid out pretty well, but as to the  
6 purchasers' responses, I think that our opposing counsel  
7 this morning said how refreshing it is when purchasers  
8 actually answer yes, that price was the reason that they  
9 switched because that's when they're telling the truth with  
10 the implication being that when they answer no, maybe that's  
11 when they're not telling the truth.

12 And my partner and I were talking about that  
13 we've been here at the Commission nine times in the last 12  
14 months. So you all have been very busy and so have we, but  
15 we're starting to see this email thing in cases, where under  
16 APO, one side or the other puts in emails that the other  
17 side has no possible way to check with their clients, the  
18 people that actually know the rest of the story.

19 So you kind of have a choice to make in this  
20 case and others. Are you going to look at -- and I looked  
21 at the confidential slides this morning. And --

22 CHAIRMAN SCHMIDTLEIN: Uh-huh.

23 MR. GRIMSON: -- you know, we saw various  
24 screenshot looking thingies. And without going into any  
25 more detail, is that what you're going to make your decision

1 on or are you going to go with your questionnaire responses  
2 that are certified? You have the whole story pursuant to a  
3 regular order of gathering the data.

4 And I just find this whole -- that email thing  
5 that's happening more and more to be really hard to deal  
6 with in these cases, because the other side of the case has  
7 no ability to develop the other side of the story. Maybe  
8 the before and after texts or emails that something else.

9 And I'm not accusing anybody of giving in  
10 selective data, but it -- I -- my answer is you sent out  
11 questionnaires for a reason through a process that you  
12 developed in decades. And your answers on the purchasing  
13 price factors and purchasers, reasons for shifting volume  
14 came through in a certain way. And we think that that's  
15 what you should look at.

16 CHAIRMAN SCHMIDTLEIN: Okay.

17 MR. SPOONER: Commissioner?

18 CHAIRMAN SCHMIDTLEIN: Mr. Spooner?

19 MR. SPOONER: Madam Chairman, I should -- I'd be  
20 remiss if I didn't interject I would encourage you to look  
21 at I think it's section 3(e) of the joint respondents'  
22 brief.

23 CHAIRMAN SCHMIDTLEIN: Okay.

24 MR. SPOONER: I have to be careful what I say,  
25 because the important information here is -- that is BPI,

1 but it has to do with the issue that you're asking.

2 CHAIRMAN SCHMIDTLEIN: Okay. I will certainly  
3 look at that. And then my last question is for Ms. Boyle at  
4 Sears again. I'm not sure whether you can answer this, but  
5 can you talk about how you think Sears is going to compete  
6 now -- with Craftsman with SPD -- did I say that -- Stanley  
7 Black and Decker? Yeah, putting it in Lowe's? Right? How  
8 do you -- how are you -- why do you think people will come  
9 to Sears to buy Craftsman rather than -- is there some kind  
10 of agreement that you're going to have certain featured

11 MS. BOYLE: We can provide more context in the  
12 post-hearing brief.

13 CHAIRMAN SCHMIDTLEIN: Okay. So that would be  
14 helpful.

15 MS. BOYLE: Uh-huh.

16 CHAIRMAN SCHMIDTLEIN: Okay. All right, I have  
17 no further questions. Do you have any further questions?  
18 Great. That concludes the Commissioner's questions. Do  
19 staff have any questions for this panel?

20 MR. CORKRAN: Douglas Corkran, Office of  
21 Investigations. Thank you, Madam Chairman. Staff has no  
22 additional questions.

23 CHAIRMAN SCHMIDTLEIN: All right. Do  
24 petitioners have any questions for this panel?

25 MS. CANNON: Thank you. Petitioners have no

1 questions.

2 CHAIRMAN SCHMIDTLEIN: Okay, thank you. All  
3 right. Well, that concludes this panel. So I will dismiss  
4 you at that time. Thank you all very much again for helping  
5 us understand this case today. And we will move to closing  
6 statements. So we'll take a minute for you all to rejoin  
7 the audience.

8 MR. BISHOP: We'll dismiss this panel with our  
9 thanks and prepare for closing remarks.

10 Will the room please come to order? Closing and  
11 rebuttal remarks on behalf of Petitioner will be given by  
12 Kathleen W. Cannon and Paul C. Rosenthal of Kelley, Drye and  
13 Warren. Miss Cannon, Mr. Rosenthal you have ten minutes.

14 CLOSING REMARKS OF KATHLEEN W. CANNON

15 MS. CANNON: Thank you for your attention today  
16 members of the Commission. We appreciate it. In closing  
17 I'd like to point out that a lot of the arguments you've  
18 heard from Respondents really ignore the staff report in  
19 this case so let me make a couple of points with reference  
20 to that.

21 First they start by claiming that our statement  
22 -- all of our market share loss was to subject imports,  
23 wasn't remotely correct. Look at your "C" table. That is  
24 absolutely true. Every bit of our market share loss was to  
25 subject imports.

1           What Respondents really were trying to say is  
2           that they didn't want to blame that on price. They cited  
3           generally to the confidential Home Depot Brief to support  
4           that claim and we will address that post-hearing because  
5           that's confidential.

6           But let's look at your pricing table. You have  
7           major underselling by the subject imports here. You have  
8           the vast majority of the direct import sales which account  
9           for the vast majority of your pricing data showing  
10          underselling. They ignore that entirely.

11          They predicate their arguments on a very small  
12          volume of imports and when you asked them about the direct  
13          import data, they basically said ignore it. Ignore it  
14          because that has distribution or service or qualification  
15          costs -- not one of the costs they mentioned is an  
16          additional cost, none of them.

17          Listen to Mr. Kruger. Mr. Kruger is a buyer in  
18          this market. He told you what he did at Home Depot. He  
19          compared the FOB port with the FOB plant price, that's  
20          exactly what you have in the direct import pricing data and  
21          that shows substantial underselling. They just don't want  
22          you to notice that.

23          Several of the Respondent witnesses also pointed  
24          out the importance of price in this market in driving sales.  
25          The Hom-Steel's testimony completely was consistent with our

1 evidence when they pointed out that Waterloo was able to get  
2 a sale at Lowe's based on a low price.

3 That's true, we don't deny it. Waterloo had to  
4 cut its price as much as it could simply to get any business  
5 to get its foot in the door during the period and that's how  
6 it got the business -- the same way they get the business,  
7 based on price.

8 You saw our extensive list of the innovations  
9 that happen in the market and so we make a lot of them -- I  
10 don't know whether you have that one handy Gina, they've  
11 started to mention some other things I'm not sure are on our  
12 list, but we make those as well -- Nobel work centers, peg  
13 boards, smart key technology, custom colors -- in fact  
14 custom colors was one of the things we did at the Lowe's  
15 account this year.

16 They gave you a handout. I think the first page  
17 of it said there was a launch of 41 and 52 inch products in  
18 2016 with the implication that we hadn't made those before.  
19 Waterloo has been making those products since the 1990's --  
20 that is not a new product. And again -- a reminder if  
21 they're talking about innovation why are they undercutting  
22 our price? Why aren't they charging more?

23 And if we're not innovative, how are we regaining  
24 sales since the Petition was filed? We didn't suddenly  
25 change our quality and innovation -- it's the same as it's

1       been it's just that the pricing factor has suddenly changed.

2               A couple of comments on the like product issue.  
3       Their focus is still on the foreign product and the foreign  
4       operations. A lot of the samples, a lot of their  
5       description -- we'll discuss that more in our Brief  
6       specifically but that is legally irrelevant -- number one.

7               And number two -- I think one of the few products  
8       they brought where they were trying to make the point about  
9       industrial was this Caterpillar product. That Caterpillar  
10      product was made by Waterloo. It is a retail product. It  
11      is sold at retail.

12              Simply because it's marketed as industrial or  
13      professional doesn't magically transform it into an  
14      industrial product -- that's marketing. Industrial products  
15      is what you heard Mr. Stremmel describe that SBD produces --  
16      a totally different product and a totally different  
17      industry, not that Cat product.

18              And last I just want to address some of the  
19      claims about Stanley Black and Decker. It's almost as if  
20      they ascribe nefarious motives to them and to Waterloo as to  
21      how this whole thing has been handled that I'd like to try  
22      to disabuse and we can address these further.

23              First, they said we hid this from you. We did  
24      not hide this from anyone. The very first opportunity we  
25      had following the sale in July to put anything on the record

1 of the final stage of this case was in comments on draft  
2 questionnaires and we put that information on the record in  
3 those comments as well as in our questionnaire response.

4 The motive for the sale was fully explained by  
5 Mr. Stremmel, it wasn't nefarious. They wanted to get into  
6 the retail market, they had an opportunity. They saw  
7 Waterloo's product was great and they decided to purchase  
8 the business.

9 The fact that they bought the business doesn't  
10 insulate Waterloo all of a sudden, they have to make money  
11 too if Waterloo can't perform because it's getting killed by  
12 the imports whether or not it's owned by them just as when  
13 it was owned by Fortune Brands doesn't protect the company.  
14 They still have to be price competitive.

15 And finally, their claim that we brought the  
16 dumping case right after they came to visit us in March and  
17 we filed the case in April -- first of all, we don't move  
18 that fast, we're pretty good but we couldn't possibly file a  
19 case in two weeks.

20 But secondly, Mr. Nictakis called me a year ago.  
21 I was talking to him in 2016 -- in the fall of 2016 about  
22 this case and we've been putting it together since then, so  
23 that was far before they ever even started to talking to  
24 Stanley Black and Decker. That had nothing to do with  
25 filing this trade case, it was purely about addressing the



1 subject imports. Thank you.

2 CLOSING REMARKS OF PAUL C. ROSENTHAL

3 MR. ROSENTHAL: I'll use the remaining 5 and  
4 minutes or 4 to talk about a few things. First I wish we  
5 had their slides up here so we could comment on them because  
6 they make our case better perhaps than we do.

7 Most of the Respondent's slides emphasize the  
8 primacy of price and purchasing decisions. The slides that  
9 Mr. Spooner talked about show Waterloo's low Black Friday  
10 prices -- exactly.

11 The retailers are selling this at low prices and  
12 they're competing against other retailers at low prices  
13 similar to the slides shown by the witnesses for Geelong and  
14 Hom-Steel. They all reinforce the low prices and the prices  
15 by the retailers selling in competition.

16 By the way they also show that Waterloo has and  
17 can sell to producers other than -- retailers other than  
18 Sears including Lowe's, including Stanley and others. And  
19 if you actually go back and you look at confidential chart  
20 you'll see all the other retailers to whom Waterloo and  
21 MBI have sold over the years. It's a very important slide.

22 Mr. Spooner mischaracterizes what Petitioners  
23 said this morning. They said that they bid on everything  
24 because they need to get as many sales as they can but they  
25 are realistic when they are asked to bid on a product that

1       they know they are not going to be as cost competitive on as  
2       some others, they admit that.

3                 In fact, many times in conversations with the  
4       buyers, the buyers essentially say, "Don't waste your time,  
5       don't bother here." It's not like they don't want to do  
6       this but they recognize it's a waste of the buyer's time and  
7       a waste of their own time to bid on certain products.

8                 You had one example here that was talked about  
9       disproportionately about when a customer came to Waterloo  
10      and said we want you to supply these three major sales and I  
11      could only do two and not the third in the timeframe asked  
12      for -- it wasn't like they didn't want to or they couldn't  
13      have done it with a little more lead time, they're anxious  
14      to get every sale they can get and they're capable of it.

15                As Miss Cannon pointed out and a witness pointed  
16      out, there's nothing that Waterloo cannot make in this  
17      product category.

18                Mr. Johanson asked about the brands having  
19      specifications and doesn't that suggest that price is  
20      important and the producers compete on price and the  
21      Respondent's tried to deflect that but in fact there's no  
22      denying it.

23                Every conversation, once you have these specs out  
24      there ultimately get to be about the price. So much so, as  
25      you've heard from our witnesses earlier, that a lot of times

1 when they'll bid on something they'll get the first sale and  
2 then after they've done that and after they've created an  
3 innovative product for the customer, that customer will then  
4 shop it over in Vietnam or China to get a lower price.

5 A couple of weeks ago we were in a hearing on  
6 wire rod and the topic of bicycles came up and I'll just  
7 quickly tell you that I worked on that case as you recall.  
8 Sam Walkman is still alive and Walmart actually supported  
9 the Petitioners in that case -- that was like 1996 or so.  
10 That was the last time I saw a big box retailer come in and  
11 support a Petition.

12 And why is that? Because the competition is so  
13 acute at the big boxes and all the retailers and it's all  
14 based on price. You heard Mr. Kruger talk about when he was  
15 a buyer everyone got evaluated on and essentially rewarded  
16 on buying products at the lowest price.

17 If you have nothing else to do or if you read  
18 nothing else, read pages 22 to 28 of our slides where we  
19 have all of these quotes from the customers talking about  
20 the primacy of price and despite the suggestion by Mr.  
21 Grimson that emails that were not written in contemplation  
22 of litigation be ignored because questionnaire responses  
23 that are scrubbed by your counsel are more credible -- I  
24 suggest the other way around ought to be the way to look at  
25 these things.

1           Last I want to leave you with the statement when  
2           asked by one of the Commissioners what does the statements  
3           by the Vietnamese party mean and doesn't that prove the  
4           importance of price in that there's competition between the  
5           Vietnamese and the Chinese and the U.S. and Mr. Spooner said  
6           -- well I glean the intent of that "to be that they're just  
7           trying to make the Chinese look bad or get out of the order  
8           somehow themselves."

9           There's no gleaning of intent. There's no  
10          translation involved here. These words mean what they say.  
11          It means that the Chinese are even lower priced than the  
12          Vietnamese who have been found to be dumping at a rate of  
13          230%. Those two entities, those two parties are dumping at  
14          such a low level how do you expect Waterloo or MBI to  
15          compete?

16          The answer is they cannot as long as the dumping  
17          continues. So we are asking you for the workers in this  
18          industry for the future of this industry to reach and  
19          affirmative determination in this case, thank you.

20                   CHAIRMAN SCHMIDTLEIN: Thank you.

21                   MR. BISHOP: Rebuttal and closing remarks on  
22          behalf of Respondents will be given by Kevin M. O'Brien of  
23          Baker and McKenzie and Deanna Tanner Okun of Adduci  
24          Masstriani and Schaumberg. Mr. O'Brien, Miss Okun, you have  
25          a total of 14 minutes.

1 CLOSING REMARKS OF KEVIN M. O'BRIEN

2 MR. O'BRIEN: Madam Chairman and Commissioners,  
3 Kevin O'Brien of Baker and McKenzie. Thank you for your  
4 time and attention today in consideration of our points.

5 At one point this morning the Petitioners said  
6 that this case has very little to do with Sears. I don't  
7 see how that position can be credibly maintained. Sears and  
8 Waterloo have a 70 year old relationship.

9 Waterloo is Sear's largest supplier by far.  
10 Sears is Waterloo's largest customer by far. Of course  
11 Sears is central to the analysis of this case and to take a  
12 position that they're not is simply focusing on the tail  
13 rather than the dog, which it seems like Petitioners have  
14 wanted to do very, very often today.

15 From Sear's point of view this case is relatively  
16 straight forward. The Commission should review Sears'  
17 importer's questionnaires and Sears' purchaser's  
18 questionnaires closely.

19 Sear's purchases have declined dramatically.  
20 There's no other way to describe it. Sears did not move  
21 off-shore to fill in those purchases. Imports for Sears  
22 have not replaced domestic purchases. The figures speak for  
23 themselves.

24 As explained in the questionnaire responses in  
25 our Briefs, in the testimony today, Sears imports products

1 Waterloo would not provide at any price. Stainless steel  
2 was one example. Waterloo closed its Mexican facilities for  
3 reasons known only to Waterloo.

4           It went out of business in producing stainless  
5 steel cabinets. Sears had no option but to go off-shore.  
6 That's not injury due to subject imports. That is a  
7 significant portion of the imports in our questionnaire  
8 response -- stainless steel tool chests and cabinets.

9           Similarly, you heard today that Waterloo refused  
10 or declined to pursue an opportunity that Sears wanted to  
11 bring to market in December of 2016. Again, price was not  
12 even mentioned and I believe I'm correctly recollecting the  
13 transcript.

14           Petitioners didn't mention price as the reason  
15 they didn't pursue that opportunity. They were busy with  
16 other product launches. It's understandable but it has  
17 nothing to do with an allegation that subject imports have  
18 caused injury. They simply had too much to do and they  
19 couldn't pursue an opportunity.

20           Sears regards Waterloo as a trusted supplier.  
21 Sears' purchaser's questionnaires bear that out. Waterloo  
22 has been Sears preferred source for Craftsman products for  
23 decades. Sears hopes the relationship continues but there  
24 will be times like those mentioned where Waterloo simply  
25 will not be in a position to supply a particular product and

1 Sears will have to look elsewhere.

2 In no sense does that alternative sourcing  
3 represent injury or threat by reason of subject imports and  
4 thus we ask the Commission to reach a negative  
5 determination, thank you.

6 CLOSING REMARKS OF DEANNA TANNER OKUN

7 MS. OKUN: Commissioners, Deanna Tanner Okun of  
8 Adduci, Mastriani and Schaumberg. Let me begin by thanking  
9 all of you for your attention and to the staff for the hard  
10 work that they've done in preparing the staff report.

11 We appreciate the questions that you had, the  
12 many questions that you had this afternoon. It allowed our  
13 industry witnesses to share their perspective on this  
14 industry and it described the unique conditions of  
15 competition which are important for your analysis.

16 I know that this Commission has dealt with a  
17 heavy case load. That you've seen lots of cases with low  
18 priced Asian imports surging into the U.S. market and  
19 crashing the low end of the market in a price sensitive  
20 product and entering the domestic industries -- but  
21 Commissioners, this is not that case.

22 I urge you to review the record carefully and in  
23 contrast to Miss Cannon's statements the Respondents are not  
24 running away from the staff report and in fact we think it's  
25 very important that you consider it carefully.

1           In fact we think it is the real data in this  
2           investigation -- not lawyer argument, not selective emails,  
3           but what purchasers said in their questionnaires and how  
4           that informs both the volume price and impact statutory  
5           factors that you must consider.

6           The Petitioners continue to say that this is a  
7           case all about price. If you look at the record and in  
8           particular, Chapter 2, I think the responses of the  
9           purchasers are informative. In table 2-10 look at the  
10          responses where innovation and customization -- the  
11          Respondents are rated superior to the domestic industry, on  
12          price it's comparable.

13          If you look at table 2-13 on differences other  
14          than price I think it is remarkable in a China case --  
15          China/Vietnam case to look at a record where so many  
16          purchasers indicated that factors other than price -- that  
17          there were differences other than price.

18          With respect to lost sales and lost revenue,  
19          Petitioners put up a chart describing this as being  
20          confirmation of losing sales to imports but in fact what was  
21          said there none of those purchasers said that they bought  
22          the subject imports because of price, none of them.

23          So again you have record evidence that supports  
24          the Respondent's view that this is not a case where price is  
25          driving what has happened in this industry.



1           I'll just briefly talk about AUV's not with  
2       respect to price but with respect to what it says about  
3       where the sweet spot of the market was for the domestic  
4       industry and I think this is a theme that there are many  
5       questions about it and obviously we'll talk about it in our  
6       Brief.

7           But you can see that the domestic industry and  
8       its long-standing relationship with Sears had particular  
9       products that it was producing and the market moved on and I  
10      think there were a lot of responses to your questions where  
11      the witnesses from Waterloo had a hard time explaining how  
12      they -- yes, they could make another product but they really  
13      didn't have the automation to do it and therefore they  
14      weren't meeting the timelines as you've heard repeatedly  
15      from Sears' witnesses, and I think that's something to take  
16      into account.

17          And I think the AUV's data indicates that. And  
18      brands do matter and again I think that while the record --  
19      there's mixed responses and there were questions about this,  
20      I think what you've heard from the industry witnesses today  
21      is in fact that the brands matter in terms of the brands  
22      wanting to have innovation.

23          You've heard the testimony from Lowes wanting to  
24      be the only one in the market and that explains what's going  
25      on in the market share changes, not price.

1                   Turning to market share -- again I think Mr.  
2                   O'Brien, Ms. Boyle's testimony about what happened with the  
3                   significant dependence that Waterloo had had on Sears --  
4                   Sears' troubles and that that explains a large portion of  
5                   what was going on in the market is something that the  
6                   Commission should review carefully.

7                   I thought it was interesting that when Waterloo's  
8                   witnesses responded to questions about Sears they tried to  
9                   paint it as if low price imports were the cause of  
10                  everything that was happening at Sears.

11                  Their counsel tried to distance themselves a  
12                  little bit from that statement in saying that of course,  
13                  Sears' demise is unrelated to what was going on in tool  
14                  chests but I think the record is clear as Mr. O'Brien has  
15                  just gone through.

16                  And again, if Waterloo and the domestic industry  
17                  were not bidding on a particular price, they didn't lose --  
18                  a particular product, they didn't lose on price, they didn't  
19                  bit on it. So you can't connect those two. So again I  
20                  think that goes to the lack of a causal link in this  
21                  particular case.

22                  I don't want to repeat what Mr. O'Brien said but  
23                  I think the fact that Waterloo had hitched its wagon to  
24                  Sear's, saw what was coming and then brought this case I  
25                  think as they tried to get a product line that works in a

1 market that has changed -- I think that's what's going on  
2 here.

3           You heard Miss Boyle talk about losing the  
4 stainless steel and not bringing the stainless steel and  
5 that impact -- you've heard some of the other specific  
6 comments on why Sears had to move to imports but continues  
7 to be a partner to Waterloo.

8           I think that's inconsistent with injury by reason  
9 of subject imports. And there was no evidence -- again we  
10 can't repeat this enough, no evidence that Sears was using  
11 the price of imports to drive down prices by the domestic  
12 industry.

13           I think again just in terms of other causes the  
14 rigidity of the domestic industry that they talked about is  
15 important in what was going on here. I just briefly as my  
16 time is running out, on domestic-like product as Mr. Spooner  
17 said -- it is not necessary that the Commission revisit  
18 domestic product but I urge the Commission to look around  
19 the room, to listen, to go back to the transcript when asked  
20 why they chose this dividing line -- the witness said well  
21 we had to do it somewhere and so we looked at what we sold  
22 -- I might be paraphrasing but that's what it sounded like.

23           And yet, with the number of scope changes that  
24 went on as they went through this case it's clear there is  
25 no a clear dividing line and the Commission has the ability

1 to look beyond the scope obviously and we think they should  
2 and that that actually captures the domestic industry.

3 And if you look at the C2 tables and it's clear  
4 that there is no injury. And with that, Commissioners, I  
5 know it's been a long day, we appreciate your time but do  
6 urge you to look carefully at the record here and to find  
7 that in this case subject imports are not the cause of the  
8 domestic industry's injury and that you cast a negative  
9 vote, thank you very much.

10 CHAIRMAN SCHMIDTLEIN: Thank you, thank you both.  
11 All right this brings us to the closing of the hearing.  
12 Post-hearing Briefs, statements responsive to questions in  
13 request of the Commission and corrections to the transcript  
14 must be filed by December 5th, 2017.

15 Closing of the record and final release of data  
16 to parties will be December 20, 2017 and final comments are  
17 due December 22, 2017. Thank you all again very much and  
18 with that this hearing is adjourned.

19 (Whereupon at 4:25 p.m., the hearing was  
20 adjourned.)

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23  
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25

## CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Tool Chests and Cabinets from China and Vietnam

INVESTIGATION NOS.: 701-TA-575 and 731-TA-1360-1361

HEARING DATE: 11-28-17

LOCATION: Washington, D.C.

NATURE OF HEARING: Final

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: 11-28-17

SIGNED: Mark A. Jagan

Signature of the Contractor or the  
Authorized Contractor's Representative

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker identification and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceedings.

SIGNED: Duane Rice  
Proofreader

I hereby certify that I reported the above-referenced proceedings of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceedings.

SIGNED: Larry Flowers  
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