STANLEY WORKS
Form 10-K
February 25, 2008

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

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 29, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

COMMISSION FILE 1-5224

THE STANLEY WORKS

(Exact Name Of Registrant As Specified In Its Charter)

Connecticut 06-0548860 (State Or Other Jurisdiction Of
Incorporation Or Organization) (I.R.S. Employer
Identification Number) 1000 Stanley Drive
New Britain, Connecticut 06053 (Address Of Principal Executive Offices) (Zip Code)
860-225-5111

(Registrant's Telephone Number)

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

Title Of
Each Class Name Of Each Exchange
On Which Registered Common Stock-$2.50
Par Value per Share New York Stock Exchange
Securities Registered Pursuant To Section 12(g) Of The Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933.

Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of ''accelerated filer and large accelerated filer'' in Rule 12b-2 of the Exchange Act.

Large accelerated filer X Accelerated filer Non-accelerated filer

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

Yes No X

As of June 30, 2007, the aggregate market values of voting common equity held by non-affiliates of the registrant was $4,981,797,897 based on the New York Stock Exchange closing price for such shares on that date. On February 15, 2008, the registrant had 78,274,252 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the registrant's fiscal year are incorporated by reference in Part III of the Annual Report on Form 10-K.

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FORM 10-K

PART I

ITEM 1.
BUSINESS

1(a) GENERAL DEVELOPMENT OF BUSINESS

(i) General. The Stanley Works (‘‘Stanley’’ or the ‘‘Company’’) was founded in 1843 by Frederick T. Stanley and incorporated in 1852. Stanley is a diversified worldwide supplier of tools and engineered solutions for professional, industrial and construction and do-it-yourself use, and security solutions for commercial applications. Stanley® is a brand recognized around the world for quality and value.

Net sales from continuing operations have increased from $2.5 billion in 2003 to $4.5 billion in 2007 reflecting execution of the Company’s profitable growth and diversification strategy. The growth in net sales from continuing operations predominantly relates to acquisitions, particularly in branded tools and security solutions, partially offset by the 2004 divestitures of the entry door and home décor businesses. Refer to Note F Acquisitions of the Notes to the Consolidated Financial Statements in Item 8 for a discussion of acquisitions over the past three years. In 2007, Stanley employed approximately 18,400 people worldwide. The Company’s principal executive office is located at 1000 Stanley Drive, New Britain, Connecticut 06053 and its telephone number is (860) 225-5111.

(ii) Restructuring Activities. Information regarding the Company’s restructuring activities is incorporated herein by reference to the material captioned ‘‘Restructuring Activities’’ in Item 7 and Note O Restructuring and Asset Impairments of the Notes to the Consolidated Financial Statements in Item 8.

1(b) FINANCIAL INFORMATION ABOUT SEGMENTS

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

1(c) NARRATIVE DESCRIPTION OF BUSINESS

The Company’s operations are classified into three business segments: Construction & Do-It-Yourself, Industrial and Security.

Construction & DIY

The Construction & Do-It-Yourself (‘‘CDIY’’) segment manufactures and markets hand tools, consumer mechanics tools, storage systems, pneumatic tools, fasteners, and electronic leveling and measuring tools. These products are sold primarily to professional end users and distributed through retailers (including home centers, mass merchants, hardware stores, and retail lumber yards). Hand tools include measuring and leveling tools, planes, hammers, demolition tools, knives and blades, screwdrivers, saws, chisels, consumer tackers and staples, as well as electronic leveling and measuring devices. Consumer mechanics tools include wrenches, sockets, metal tool boxes and cabinets. Storage units include plastic tool boxes and storage systems. Pneumatic tools and fasteners are used for construction, remodeling, furniture making, pallet manufacturing and other applications involving the attachment of wooden materials. Electronic leveling and measuring tools include laser and optical leveling and measuring devices and accessories utilized primarily by contractors, surveyors, engineers and other professionals and do-it-yourself individuals.

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Industrial

The Industrial segment manufactures and markets: professional mechanics tools and storage systems; plumbing, heating, air conditioning and roofing tools; hydraulic tools and accessories; assembly tools and systems; and specialty tools (Stanley supply and services). These products are sold to industrial customers and distributed primarily through third party distributors as well as through direct sales forces.

Professional mechanics tools and storage include wrenches, sockets, electronic diagnostic tools, tool boxes and high-density industrial storage and retrieval systems. Plumbing, heating, air conditioning and roofing tools include pipe wrenches, pliers, press fitting tools, and tubing cutters. Hydraulic tools and accessories include hand-held hydraulic tools and accessories used by contractors, utilities, railroads and public works as well as mounted demolition hammers and compactors designed to work on skid steer loaders, mini-excavators, backhoes and large excavators. Assembly tools and systems include electric and pneumatic assembly tools. These are high performance precision tools, controllers and systems for tightening threaded fasteners used chiefly by vehicle manufacturers. Stanley supply and services distributes specialty tools for assembling, repairing and testing electronic equipment.

Security

The Security segment is a provider of access and security solutions primarily for retailers, educational, financial and healthcare institutions, as well as commercial, governmental and industrial customers. The Company provides an extensive suite of mechanical and electronic security products and systems, and a variety of security services including security integration systems, software, related installation, maintenance, monitoring services, automatic doors, door closers, exit devices, hardware (includes hinges, gate hardware, cabinet pulls, hooks, braces and shelf brackets) and locking mechanisms. Security products are sold primarily on a direct sales basis as well as, in certain instances, through third party distributors.

Competition

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

The Company encounters active competition in all of its businesses from both larger and smaller companies that offer the same or similar products and services or that produce different products appropriate for the same uses. The Company has a large number of competitors; however, aside from a small number of competitors in the consumer hand tool and consumer hardware businesses who produce a range of products somewhat comparable to the Company’s, the majority of its competitors compete only with respect to one or more individual products or product lines in that segment. Certain large customers offer private label brands (‘‘house brands’’) that compete across a wider spectrum of the Company’s product offerings. The Company is one of the largest manufacturers of hand tools in the world, featuring a broader line of products than any other toolmaker. The Company is a significant manufacturer of pneumatic fastening tools and related fasteners for the construction, furniture and pallet industries as well as a leading manufacturer of hand-held hydraulic tools used for heavy construction, railroad, utilities and public works. The Company also believes that it is among the largest direct providers of access security integration and alarm monitoring services in North America.

Several of the Company’s largest retail customers have elected to compete with the Company by developing house brands and sourcing competing products (generally from low cost countries).

Customers

A substantial portion of the Company’s products are sold to home centers and mass merchants in the U.S. and Europe. A consolidation of retailers both in North America and abroad has occurred over time. While this consolidation and the domestic and international expansion of these large retailers provide the Company with opportunities for growth, the increasing size and importance of individual customers creates a certain degree of exposure to potential volume loss. The loss of certain of the

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larger home centers or mass merchants as customers could have a material adverse effect on the Company until either such customers were replaced or the Company made the necessary adjustments to compensate for the loss of business.

Despite the trend toward customer consolidation, the Company has been able to maintain a diversified customer base and has decreased customer concentration risk over the past years, as sales from continuing operations in markets outside of the home center and mass merchant distribution channels have grown at a greater rate through a combination of efforts to broaden the customer base, primarily in the Security and Industrial segments. In this regard, sales to the Company's largest customer as a percentage of total sales have decreased from 22% in 2002 to 8% in 2007.

Raw Materials

The Company's products are manufactured using both ferrous and non-ferrous metals including, but not limited to steel, aluminum, zinc, brass, copper and nickel, as well as resin. Additionally, the Company uses other commodity based materials for components and packaging including, but not limited to, plastics, wood, and other corrugated products. The raw materials required are procured globally and available from multiple sources at competitive prices. The Company has annual or quarterly spot contracts with many of its preferred suppliers of raw material and energy. Certain commodity prices, particularly energy related and non-ferrous metals, are expected to remain volatile in 2008. The Company does not anticipate difficulties in obtaining supplies for any raw materials or energy used in its production processes.

Backlog

Due to short order cycles and rapid inventory turnover in most of the Company's CDIY and Industrial businesses, backlog is generally not considered a significant indicator of future performance. At February 2, 2008, the Company had approximately $368 million in unfilled orders compared with $347 million in unfilled orders at February 3, 2007. All of these orders are reasonably expected to be filled within the current fiscal year. Most customers place orders for immediate shipment and as a result, the Company produces primarily for inventory, rather than to fill specific orders.

Patents and Trademarks

No business segment is dependent, to any significant degree, on patents, licenses, franchises or concessions and the loss of these patents, licenses, franchises or concessions would not have a material adverse effect on any of the business segments. The Company owns numerous patents, none of which individually is material to the Company's operations as a whole. These patents expire at various times over the next 20 years. The Company holds licenses, franchises and concessions, none of which individually or in the aggregate are material to the Company's operations as a whole. These licenses, franchises and concessions vary in duration, but generally run from one to 20 years.

The Company has numerous trademarks that are used in its businesses worldwide. The STANLEY® and STANLEY in a notched rectangle design trademarks are material to all three business segments. These well-known trademarks enjoy a reputation for quality and value and are among the world's most trusted brand names. The Company's tagline, ''Make Something Great™'' is the centerpiece of the brand strategy for all segments. The Bostitch®, Atro®, Besco® , Powerlock®, Tape Rule Case Design (Powerlock), FatMax®, FatMax® Xtreme™, FatMax® XL™ CST/Berger™, and Zag®, are material to the CDIY segment. LaBounty®, MAC®, Proto®, Jensen®, Vidmar®, Blackhawk™ by Proto®, National®, Facom®, Virax® and USAG® trademarks are material to the Industrial segment. In the Security segment, the BEST®, HSM®, Blick®, Frisco Bay®, Safemasters®, and Sargent and Greenleaf® trademarks are material. The terms of these trademarks vary, typically, from 10 to 20 years, with most trademarks being renewable indefinitely for like terms.

Environmental Regulations

The Company is subject to various environmental laws and regulations in the U.S. and foreign countries where it has operations. Future laws and regulations are expected to be increasingly stringent and will likely increase the Company's expenditures related to environmental matters.

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The Company is a party to a number of proceedings before federal and state regulatory agencies relating to environmental remediation. Additionally, the Company, along with many other companies, has been named as a potentially responsible party (‘‘PRP’’) in a number of administrative proceedings for the remediation of various waste sites, including sixteen active Superfund sites. Current laws potentially impose joint and several liabilities upon each PRP. In assessing its potential liability at these sites, the Company has considered the following: whether responsibility is being disputed, the terms of existing agreements, experience at similar sites, and the Company’s volumetric contribution at these sites.

The Company’s policy is to accrue environmental investigatory and remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The amount of liability recorded is based on an evaluation of currently available facts with respect to each individual site and includes such factors as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. The liabilities recorded do not take into account any claims for recoveries from insurance or third parties. As assessments and remediation progress at individual sites, the amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. As of December 29, 2007, the Company had reserves of $30 million for remediation activities associated with Company-owned properties, as well as for Superfund sites, for losses that are probable and estimable.

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

Employees

At December 29, 2007, the Company had approximately 18,400 employees, nearly 9,600 of whom were employed in the U.S. Approximately 800 U.S. employees are covered by collective bargaining agreements negotiated with 17 different local labor unions who are, in turn, affiliated with approximately 6 different international labor unions. The majority of the Company’s hourly-paid and weekly-paid employees outside the U.S. are not covered by collective bargaining agreements. The Company’s labor agreements in the U.S. expire in 2008, 2009, 2010 and 2011. There have been no significant interruptions or curtailments of the Company’s operations in recent years due to labor disputes. The Company believes that its relationship with its employees is good.

1(d) FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

Financial information regarding the Company’s geographic areas is incorporated herein by reference to Note P Business Segments and Geographic Areas of the Notes to the Consolidated Financial Statements in Item 8.

1(e) AVAILABLE INFORMATION

The Company’s website is located at http://www.Stanleyworks.com. (This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to our website. The information on our website is not, and is not intended to be, part of this Form 10-K and is not incorporated into this report by reference.) Stanley makes its Forms 10-K, 10-Q, 8-K and amendments to each available free of charge on its website as soon as reasonably practicable after filing them with, or furnishing them to the U.S. Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

The Company's business, operations and financial condition are subject to various risks and uncertainties. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including those risks set forth under the

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heading entitled ''Cautionary Statements Under the Private Securities Litigation Reform Act of 1995'', and in other documents that the Company files with the U.S. Securities and Exchange Commission, before making any investment decision with respect to its securities. If any of the risks or uncertainties actually occur or develop, the Company's business, financial condition, results of operations and future growth prospects could change. Under these circumstances, the trading prices of the Company's securities could decline, and you could lose all or part of your investment in the Company's securities.

Continued deterioration of the US housing and construction markets or downturns in these markets in Europe or Asia could have a material adverse effect on the Company's business.

Approximately 24% of 2007 sales were in the Americas region in the Construction and Do-It-Yourself segment. This portion of the Company's business has been adversely affected by the decline in the U.S. housing and general construction markets, though European and Asian sales in this segment were robust in 2007. It is possible this softness in U.S markets will be prolonged and to the extent it persists there is likely to be an unfavorable impact on sales and earnings. Further deterioration of these domestic housing and construction markets in the Americas or downturns in these markets in Europe and Asia could reduce demand for Company products and therefore have a material adverse effect on sales and earnings. In addition, in the event economic conditions worsen, it is possible certain customers' credit-worthiness may decline resulting in increased write-offs of customer receivables.

The Company's growth and repositioning strategies include acquisitions. The Company's recent acquisitions may not further its strategies and the Company may not be able to identify suitable future acquisition candidates.

In 2002, the Company embarked on a growth strategy to shift its business portfolio toward favored growth markets through acquisitions and divestitures, and thereby reduce the risk associated with large customer concentrations. The strategy has been advanced over the last five years with the sales of the Company's residential entry door and home décor businesses, and the acquisition of a number of companies, including HSM Electronic Protection Services, Inc. (''HSM''), Facom S.A. (''Facom''), National Manufacturing Co. (''National''), Besco Pneumatic Corporation (''Besco''), Bes Lock Corporation and its affiliates (''Best Access''), Chicago Steel Tape Co. and affiliates (''CST/Berger''), Blick plc (''Blick''), Frisco Bay Industries Ltd (''Frisco Bay''), ISR Solutions, Inc. (''ISR''), Security Group, Inc. (''Security Group'') a Precision Hardware, Inc. (''Precision'').

Although the Company has extensive experience with acquisitions, there can be no assurance that recently acquired companies will be successfully integrated and effectively implement the Company's growth and repositioning strategy. If the Company successfully integrates the acquired companies and effectively implements its repositioning strategy, there can be no assurance that its resulting business segments will enjoy continued market acceptance or profitability.

In addition, there can be no assurance that the Company will be able to successfully identify suitable future acquisition candidates, negotiate appropriate terms, obtain the necessary financing, complete the transactions or successfully integrate the new companies as necessary to continue its growth and repositioning strategies.

The Company's acquisitions may result in certain risks for its business and operations.

The Company has made a number of acquisitions in the past three years, including, but not limited to: InnerSpace in July 2007, HSM in January 2007, Besco in July 2006, Facom in January 2006, National in November 2005, Precision in May 2005, and Security Group in January 2005. The Company may make additional acquisitions in the future. Acquisitions involve a number of risks, including:

- the diversion of Company management’s attention and other resources,
- the incurrence of unexpected liabilities, and
- the loss of key personnel and clients or customers of acquired companies.

Any intangible assets that the Company acquires may have a negative effect on its earnings and return on capital employed. In addition, the success of the Company’s future acquisitions will depend in part on its ability to:

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- combine operations,
- integrate departments, systems and procedures, and
- obtain cost savings and other efficiencies from the acquisitions.

Failure to effectively consummate or manage future acquisitions may adversely affect the Company's existing businesses and harm its operational results. The Company is still in the process of integrating the businesses and operations of Facom, National, Besco, HSM, InnerSpace and other acquisitions with its existing businesses and operations. The Company cannot ensure that such integrations will be successfully completed, or that all of the planned synergies will be realized.

The Company may incur significant additional indebtedness, or issue additional equity securities, in connection with future acquisitions which may restrict the manner in which it conducts business. The potential issuance of such securities may limit the Company's ability to implement elements of its growth strategy and may have a dilutive effect on earnings.

As more fully described in Item 7 and Note I Long-Term Debt and Financing Arrangements of the Notes to the Consolidated Financial Statements in Item 8, the Company issued $450 million of Enhanced Trust Preferred Securities through its Trust subsidiary in 2005, the net proceeds of which were used to finance a portion of the acquisitions of Facom and National. In March 2007, the Company completed concurrent offerings of Floating Rate Equity Units and 5% Senior Notes due 2010, the net proceeds of which were used to finance a portion of the acquisition of HSM. In addition, the Company has a five year revolving credit agreement, enabling borrowings up to $550 million; this agreement includes provisions that allow designated subsidiaries to borrow up to $250 million in Euros and Pounds Sterling, which may be available to, among other things, fund acquisitions.

The instruments and agreements governing certain of the Company's current indebtedness contain restrictive covenants that include, among other things:

- a limitation on creating liens on certain property of the Company and its subsidiaries;
- maintenance of specified financial ratios. Failure to maintain such ratios could result in limiting further access to liquidity and requiring the Company to pay all interest coupons on certain debt securities through the issuance of common stock before making further dividend payments on its common shares outstanding;
- a restriction on entering into certain sale-leaseback transactions; and
- customary events of default. If an event of default occurs and is continuing, the Company might be required to repay all amounts outstanding under the respective instrument or agreement.

Future new instruments and agreements governing indebtedness may impose other restrictive covenants. Such covenants could restrict the Company in the manner in which it conducts business and operations as well as in the pursuit of its growth and repositioning strategies.

The Company's results of operations could be negatively impacted by inflation in the cost of raw materials, freight and energy.

The Company’s products are manufactured of both ferrous and non-ferrous metals, including but not limited to steel, aluminum, zinc, brass, nickel and copper, as well as resin. Additionally, the Company uses other commodity based materials for components and packaging including, but not limited to: plastics, wood, and other corrugated products. As described in more detail in Item 7 hereto, the Company has been negatively impacted by commodity and freight inflation in recent years and it expects energy and certain commodity prices, particularly non-ferrous metals, to increase. If the Company is unable to mitigate these inflation increases through various customer pricing actions and cost reduction initiatives, its profitability may be adversely affected.

Further tightening of credit markets could adversely affect the Company by limiting the Company’s or its customers’ ability to borrow or otherwise obtain cash.

The Company’s growth plans are dependent on, among other things, the availability of funding to support corporate initiatives and complete appropriate acquisitions and the ability to increase sales of existing product lines. While the Company has not encountered difficulties to date, the tightening of credit markets could make it more difficult for the Company to borrow or otherwise obtain the cash required for significant new corporate initiatives and acquisitions. In addition, a large portion of the Company's products are sold to professionals in the commercial construction industry. To the extent a continued tightening of credit markets results in reduced commercial construction activity, there could be an adverse impact on sales.

The Company is exposed to market risk from changes in foreign currency exchange rates which could negatively impact profitability.

Exposure to foreign currency risk results because the Company, through its global operations, enters into transactions and makes investments denominated in multiple currencies. The Company's predominant exposures are in European, Canadian and Asian currencies, including the Chinese Renminbi (''RMB''). In preparing its financial statements, for foreign operations with functional currencies other than the U.S. dollar, asset and liability accounts are translated at current exchange rates, and income and expenses are translated using weighted average exchange rates. With respect to the effects on translated earnings, if the U.S. dollar strengthens relative to local currencies, the Company's earnings could be negatively impacted. Although the Company utilizes risk management tools, including hedging, as it deems appropriate, to mitigate a portion of potential market fluctuations in foreign currencies, there can be no assurance that such measures will result in cost savings or that all market fluctuation exposure will be eliminated. The Company does not make a practice of hedging its non U.S. Dollar earnings.

The Company sources significant products from China and other Asian low cost countries for resale in other regions. To the extent the RMB or these other currencies appreciate with respect to the U.S. dollar, the Company may experience cost increases on such purchases. While the 7% appreciation of the RMB during 2007 has not as yet generated material cost increases for products sourced from China, further significant appreciation of the RMB or other currencies in countries where the Company sources product could adversely impact profitability. The Company may not be successful at implementing customer pricing or other actions in an effort to mitigate the related cost increases.

The Company's business is subject to risks associated with sourcing and manufacturing overseas.

The Company imports large quantities of finished goods, components and raw materials. Substantially all of its import operations are subject to customs requirements and to tariffs and quotas set by governments through mutual agreements, bilateral actions or, in some cases (e.g., anti-dumping tariffs), unilateral action. In addition, the countries in which the Company's products and materials are manufactured or imported from may from time to time impose additional quotas, duties, tariffs or other restrictions on its imports (including restrictions on manufacturing operations) or adversely modify existing restrictions. Imports are also subject to unpredictable foreign currency variation which may increase the Company's cost of goods sold. Adverse changes in these import costs and restrictions, or the Company's suppliers' failure to comply with customs regulations or similar laws, could harm the Company's business.

The Company's operations are also subject to the effects of international trade agreements and regulations such as the North American Free Trade Agreement, and the activities and regulations of the World Trade Organization. Although these trade agreements generally have positive effects on trade liberalization, sourcing flexibility and cost of goods by reducing or eliminating the duties and/or quotas assessed on products manufactured in a particular country, trade agreements can also impose requirements that adversely affect the Company's business, such as setting quotas on products that may be imported from a particular country into key markets such as the U.S. or the European Union.

The Company's ability to import products in a timely and cost-effective manner may also be affected by conditions at ports or issues that otherwise affect transportation and warehousing providers, such as port and shipping capacity, labor disputes, severe weather or increased homeland security requirements in the U.S. and other countries. These issues could delay importation of products or require the Company to locate alternative ports or warehousing providers to avoid disruption to customers. These alternatives may not be available on short notice or could result in higher transit costs, which could have an adverse impact on the Company's business and financial condition.

Large customer concentrations and related customer inventory adjustments may negatively impact sales, results of operations and cash flows.

The Company has certain significant customers, particularly home centers and major retailers such as The Home Depot, Lowe's and Wal-Mart, although no one customer represents more than 10% of consolidated net sales. The loss or material reduction of business from, or the lack of success of sales initiatives for the Company's products related to, any such significant customer could have a material adverse impact on the Company's results of operations and cash flows.

In addition, unanticipated inventory adjustments by such customers can have a negative impact on sales. For example, severe inventory adjustments taken by certain large North American home center customers in December 2005 negatively impacted sales by approximately $30 million versus normal levels. While the Company did not experience such a significant impact from customer inventory adjustments in late 2006 or 2007, they may re-occur in the future.

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

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

If the Company were required to write down all or part of its goodwill, indefinite-lived tradenames, or other definite-lived intangible assets, its net income and net worth could be materially adversely affected.

As a result of acquisitions, the Company has $1.5 billion of goodwill, $322 million of indefinite-lived tradenames, and $393 million of definite-lived intangible assets recorded on its Consolidated Balance Sheet at December 29, 2007. The Company is required to periodically, at least annually, determine if its goodwill or indefinite-lived tradenames have become impaired, in which case it would write down the impaired portion of the intangible asset. The definite-lived intangible assets, including customer relationships, are amortized over their estimated useful lives; such assets are also evaluated for impairment when appropriate. Impairment of intangible assets may be triggered by developments outside the Company's control, such as technological change, intensified competition or other matters causing a decline in expected future cash flows. If the Company were required to write down all or part of its goodwill, indefinite-lived tradenames, or other definite-lived intangible assets, its net income and net worth could be materially adversely affected.

Ultimate income tax payments may differ from amounts currently recorded by the Company. Future tax law changes may materially increase the Company's prospective income tax expense.

The Company is subject to income taxation in the United States as well as numerous foreign jurisdictions. Judgment is required in determining the Company's worldwide income tax provision and accordingly there are many transactions and computations for which the final income tax determination is uncertain. The Company is routinely audited by income tax authorities in many tax jurisdictions. Although management believes the recorded tax estimates are reasonable, the ultimate outcome from any audit (or related litigation) could be materially different from amounts reflected in the Company's income tax provisions and accruals. Future settlements of income tax audits may have a material effect on earnings between the period of initial recognition of tax estimates in the financial statements and the point of ultimate tax audit settlement. Additionally, it is possible that future income tax legislation may be enacted that could have a material impact on the Company's worldwide income tax provision beginning with the period that such legislation becomes effective. Also, while a reduction in statutory rates would result in a favorable impact on future net earnings, it would require an initial write-down of any deferred tax assets in the related jurisdiction.

The Company's failure to continue to successfully avoid, manage, defend, litigate and accrue for claims and litigation could negatively impact its results of operations or cash flows.

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As described in further detail in Items 1 and 3 and Note S Contingencies of the Notes to the Consolidated Financial Statements in Item 8, the Company is exposed to and becomes involved in various litigation matters arising out of the ordinary routine conduct of its business, including, from time to time, actual or threatened litigation relating to such items as commercial transactions, product liability, workers compensation, the Company's distributors, intellectual property claims, regulatory actions and environmental matters. There can be no assurance that the Company will be able to continue to successfully avoid, manage and defend such matters. In addition, given the inherent uncertainties in evaluating certain exposures, actual costs to be incurred in future periods may vary from the Company's estimates for such contingent liabilities.

The Company's brands are important assets of its businesses and violation of its trademark rights by imitators could negatively impact sales and brand reputation.

The Company's trademarks enjoy a reputation for quality and value and are important to its success and competitive position. Unauthorized imitation of its products or unauthorized use of its trademark rights may not only erode sales of the Company's products, but may also cause significant damage to its brand name and reputation, its ability to effectively represent the Company to its customers, contractors, suppliers, and/or licensees, as well as divert management time and attention. There can be no assurance that the Company's on-going effort to protect its brand and trademark rights will prevent all violations. In addition, the laws and enforcement mechanisms of some foreign countries may not allow the Company to protect its proprietary rights to the same extent as it is able to in the United States.

The Company has trademark licensing programs and licensees may not comply with product quality, manufacturing standards, marketing and other requirements.

The Company licenses certain of its trademarks to third parties for manufacturing, marketing, distribution and sale of various products. While it enters into comprehensive licensing agreements with its licensees covering product design, product quality, sourcing, manufacturing, marketing and other requirements, such licensees may not comply fully with those agreements. Non-compliance could include marketing products under the Company's brand names that do not meet its quality and other requirements or engaging in manufacturing practices that do not meet the Company's supplier code of conduct. These activities could harm brand equity, reputation and business.

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

The success of the Company's efforts to grow its business depends on the contributions and abilities of key executives, its sales force and other personnel, including the ability of its sales force to adapt to any changes made in the sales organization and achieve adequate customer coverage. The Company must therefore continue to recruit, retain and motivate management, sales and other personnel sufficient to maintain its current business and support its projected growth. A shortage of these key employees might jeopardize the Company's ability to implement its growth strategy.

The Company faces active competition and if it does not compete effectively, its business may suffer.

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

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The Stanley Fulfillment System (‘‘SFS’’) is a continuous operational improvement process applied to many aspects of the Company’s business such as procurement, quality in manufacturing, maximizing customer fill rates, integrating acquisitions and other key business processes. In the event the Company is not successful in effectively applying the SFS disciplines to its key business processes its ability to compete and future earnings could be adversely affected.

In addition, the Company may have to reduce prices on its products and services, or make other concessions, to stay competitive and retain market share. The Company engages in restructuring actions, sometimes entailing shifts of production to low cost countries, as part of its efforts to maintain a competitive cost structure. If the Company does not execute restructuring actions well, its ability to meet customer demand may decline, or earnings may otherwise be adversely impacted; similarly if such efforts to reform the cost structure are delayed relative to competitors or other market factors the Company may lose market share and profits.

The performance of the Company’s businesses may suffer if its computer systems are disrupted or cease to operate effectively, or if planned upgrades to computer systems are not implemented smoothly.

The Company relies heavily on computer systems to manage and operate its businesses, and record and process transactions. Computer systems are important to production planning, customer service and order fulfillment among other business-critical processes. Consistent and efficient operation of the computer hardware and software systems is imperative to the successful sales and earnings performance of the various businesses in many countries.

Despite efforts to prevent such situations, the Company’s systems may be affected by damage or interruption from, among other matters, power outages, computer viruses, or security breaches. Computer hardware and storage equipment that is integral to efficient operations, such as email, telephone and other functionality, is concentrated in certain physical locations in the various continents in which the Company operates. Management believes it has effective disaster recovery plans and that it is unlikely there would be more than a short-lived disruption to its computer systems due to these physical concentrations of computer equipment, or from potential occurrences of damage and interruption. However, it is reasonably possible that results could be adversely impacted if equipment outages were prolonged due to an unusually serious event. In addition, the Company is in the process of planning and implementing system conversions to SAP version 6.0 (‘‘SAP’’) to provide a common platform across most of its businesses. The implementations from legacy systems to SAP will occur in carefully managed stages over a period of three years in the Americas, and ultimately thereafter in Europe and Asia. Management believes the planned system conversions are cost-beneficial and will further enhance productivity in its operations. There can be no assurances that expected expense synergies will be achieved or that there will not be delays to the expected timing. It is possible the costs to complete the system conversions may exceed current expectations, and that significant costs may be incurred that will require immediate expense recognition as opposed to capitalization. The risk of disruption to key operations is increased when complex system changes such as the SAP conversions are undertaken. If systems fail to function effectively, or become damaged, operational delays may ensue and the Company may be forced to make significant expenditures to remedy such issues. Any significant disruption in the Company’s computer operations could have a material adverse impact on our business and results of operations.

If the investments in employee benefit plans do not perform as expected, the Company may have to contribute additional amounts to these plans, which would otherwise be available to cover operating and other expenses. Certain U.S. employee benefit plan expense is affected by the market value of the Company’s common stock.

As described in further detail in Note M Employee Benefit Plans of the Notes to the Consolidated Financial Statements in Item 8, the Company sponsors pension and other post retirement defined benefit plans, as well as an Employee Stock Ownership Plan (‘‘ESOP’’) under which the primary U.S. defined contribution and 401(k) plans are funded. The Company's defined benefit plan assets are currently invested in equity securities, bonds and other fixed income securities, and money market instruments. The Company's funding policy is to contribute amounts determined annually on an actuarial basis to provide for current and future benefits in accordance with applicable law which

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require, among other things, that the Company make cash contributions to under-funded pension plans. The Company expects to contribute approximately $15 million to its pension and other post retirement defined benefit plans in 2008.

There can be no assurance that the value of the plan assets, or the investment returns on those plan assets, will be sufficient in the future. It is therefore possible that the Company may be required to make significant additional cash contributions to the plans which would reduce the cash available for other business purposes, or that the Company will have to recognize a significant pension liability adjustment which would decrease the net assets of the Company.

Overall ESOP expense is affected by the market value of Stanley stock on the monthly dates when shares are released, among other factors. Net ESOP expense amounted to $2 million in each of the years 2007, 2006 and 2005. While the average market value of shares released increased from $46.41 in 2005 to $56.04 in 2007, other elements of ESOP expense, including a gradual reduction in the number of shares released annually from the trust, offset the favorable impact of the higher share price. ESOP expense could increase in the future if the market value of the Company's common stock declines.

The Company provides a 5% guaranteed rate of return on participant contributions made to the tax deferred 401(K) savings plan prior to July 1998 when all contributions were invested in Stanley common stock. The value of the shares purchased by participants prior to July 1998 along with the 5% cumulative guaranteed rate of return on Stanley common stock is known as an Investment Protection Account (''IPA''). Beginning in July 1998, the investment options for plan participant contributions were enhanced to include a variety of investment funds in addition to the Company's common stock, and there is no guaranteed rate of return to participants on any contributions made after that time. The IPA guarantee is included in the actuarial valuation of the ongoing U.S. pension plan. Payments related to the IPA guarantees, if they have any value, would be made to participants over a period of many years generally as they retire. In the event the market value of Stanley common stock declines below $43.59 (which is the stock price at which there was a settlement of this liability) additional costs may be triggered by the IPA benefit guarantee.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 29, 2007, the Company and its subsidiaries owned or leased material facilities (facilities over 50,000 square feet) for manufacturing, distribution and sales offices in 17 states and 14 foreign countries. The Company believes that its material facilities are suitable and adequate for its business.

Certain properties are utilized by more than one segment and in such cases the property is reported in the segment with highest usage.

Material facilities owned by the Company and its subsidiaries follow:

CDIY

Clinton and New Britain, Connecticut; Shelbyville, Indiana: East Greenwich, Rhode Island; Cheraw, South Carolina; Pittsfield, Vermont; Richmond, Virginia; Smiths Falls, Canada; Hellaby, England; Besancon Cedex, France; Puebla, Mexico; Jiashan City and Langfang, Peoples Republic of China; Wroclaw, Poland and Amphur Bangpakong, Thailand.

Industrial

Phoenix, Arizona; Dallas, Texas; Two Harbors, Minnesota; Columbus, Georgetown and Sabina, Ohio; Allentown, Pennsylvania; Pecky, Czech Republic; Arbois, Epernay, Ezy Sur Eure, Laissey, Morangis, Nevers, and Villeneuve Le Roi, France; Fano, Gemonio and Monvalle, Italy; and Taichung Hsien, Taiwan.

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Security

Farmington, Connecticut; Sterling and Rock Falls, Illinois; Indianapolis, Indiana; Nicholasville, Kentucky; Coburg, Canada; Nueva Leon, Mexico; and Xiaolan, Peoples Republic of China

Material facilities leased by the Company and its subsidiaries follow:

Corporate Offices

New Britain, Connecticut.

CDIY

New Britain, Connecticut; Miramar, Florida; Watseka, Illinois; Fishers, Indiana; Kannapolis, North Carolina; Somerton, Australia; Mechelen, Belgium; Oakville and Smiths Falls, Canada; Northampton, England; Karmiel and Migdal, Israel.

Industrial

Kentwood, Michigan; Highland Heights and Westerville, Ohio; Milwaukie, Oregon; Smiths Falls, Canada; Morangis, France; Biassono and Figino Serenza, Italy and Pietermaritzburg, South Africa.

Security

Noblesville, Indiana

The aforementioned material facilities not being used by the Company include:

CDIY

Richmond, Virginia (owned) and one of the two properties located in Amphur Bangpakong, Thailand (owned).

Industrial

Villeneuve Le Roi, France (owned).

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is involved in various lawsuits and claims, including product liability, environmental and distributor claims, and administrative proceedings. The Company does not expect that the resolution of these matters will have a materially adverse effect on the Company’s consolidated financial position, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of 2007 to a vote of security holders.

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PART II

ITEM 5.

MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company’s common stock is listed and traded on the New York Stock Exchange, Inc. (‘‘NYSE’’) under the abbreviated ticker symbol ‘‘SWK’’, and is a component of the Standard & Poor’s (‘‘S&P’’) 500 Composite Stock Price Index. The Company’s high and low quarterly stock prices on the NYSE for the years ended December 29, 2007 and December 30, 2006 follow:

	2007			2006		
	High	Low	Dividend Per Common Share	High	Low	Dividend Per Common Share
QUARTER:						
First	$ 58.99	$ 49.95	$ 0.30	$ 53.13	$ 47.00	$ 0.29
Second	$ 63.68	$ 54.63	$ 0.30	$ 54.59	$ 44.61	$ 0.29
Third	$ 64.25	$ 52.41	$ 0.31	$ 50.81	$ 41.60	$ 0.30
Fourth	$ 58.99	$ 47.01	$ 0.31	$ 53.48	$ 46.58	$ 0.30
Total			$ 1.22			$ 1.18

As of February 15, 2008, there were 12,462 holders of record of the Company’s common stock.

Information required by Item 201(d) of Regulation S-K concerning securities authorized for issuance under equity compensation plans can be found under Item 12 of this Annual Report on Form 10-K.

The following table provides information about the Company’s purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act for the three months ended December 29, 2007:

2007	(a) Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of A Publicly Announced Plan or Program	Maximum Number Of Shares That May

Yet Be Purchased
Under The Program September 30 – November 3 584 $ 55.86 — — November 4 – December 1927,042 $ 49.97 — — December 2 – December 291,060,693 $ 51.41 — — 1,988,319 $ 50.74 — —
During the fourth quarter of 2007, the Company repurchased $100 million of its common stock virtually completing its prior share authorization. On December 12, 2007 the Company announced that its board of directors adopted a resolution authorizing repurchase, from time to time, of up to 10.0 million shares of the Company's common stock. As of December 29, 2007, these 10.0 million shares of common stock remain authorized for repurchase. The Company may continue to repurchase shares in the open market or through privately negotiated transactions from time to time pursuant to this prior authorization to the extent management deems warranted based on a number of factors, including the level of acquisition activity, the market price of the Company's common stock and the current financial condition of the Company.

(a) This column includes 18,202 shares of common stock that were deemed surrendered to the Company by participants in various of the Company's benefit plans to satisfy the taxes related to the vesting or delivery of a combination of time vesting restricted share units and shares underlying long-term incentive awards under those plans. The remaining balance in this column relates to the previously mentioned stock repurchase.

ITEM 6.

SELECTED FINANCIAL DATA

The Company made significant acquisitions during the five-year period presented below that affect comparability of results. Refer to Note F Acquisitions of the Notes to Consolidated Financial Statements in Item 8 for further information. Additionally, as detailed in prior year 10-K filings, the 2003 and 2004 results have been restated to remove the effects of discontinued operations, such that all years are comparable (in millions, except per share amounts):

	2007	2006	2005	2004	2003
Continuing Operations:					
Net sales	$ 4,484	$ 4,019	$ 3,285	$ 2,997	$ 2,485
Net earnings	$ 337	$ 291	$ 272	$ 237	$ 88
Basic earnings per share:					
Continuing operations	$ 4.09	$ 3.55	$ 3.26	$ 2.89	$ 1.05
Discontinued operations	—	$ (0.01)	$ (0.03)	$ 1.58	$ 0.24
Total basic earnings per share	$ 4.09	$ 3.54	$ 3.23	$ 4.47	$ 1.28
Diluted earnings per share:					
Continuing operations	$ 4.00	$ 3.47	$ 3.18	$ 2.81	$ 1.04
Discontinued operations	—	$ (0.01)	$ (0.02)	$ 1.54	$ 0.23
Total diluted earnings per share	$ 4.00	$ 3.46	$ 3.16	$ 4.36	$ 1.27
Percent of net sales:					
Cost of sales	62.3 %	63.7 %	64.0 %	63.2 %	65.8 %
Selling, general and administrative	23.6 %	23.8 %	22.4 %	23.1 %	24.7 %
Interest, net	1.8 %	1.6 %	1.0 %	1.1 %	1.1 %
Other, net	2.0 %	1.4 %	1.5 %	1.5 %	1.6 %
Earnings before income taxes	10.1 %	9.1 %	10.9 %	10.8 %	4.8 %
Net earnings	7.5 %	7.2 %	8.3 %	7.9 %	3.5 %
Balance sheet data:					
Total assets*	$ 4,780	$ 3,935	$ 3,545	$ 2,851	$ 2,424
Long-term debt	$ 1,212	$ 679	$ 895	$ 482	$ 514
Shareowners' equity**	$ 1,729	$ 1,552	$ 1,445	$ 1,237	$ 885
Ratios:					
Current ratio	1.4	1.3	2.1	1.7	1.6
Total debt to total capital	46.5 %	39.2 %	42.4 %	32.1 %	43.2 %
Income tax rate — continuing operations	25.4 %	20.8 %	24.1 %	26.9 %	25.5 %
Return on average equity — continuing operations	20.5 %	19.4 %	20.3 %	22.3 %	9.3 %
Common stock data:					
Dividends per share	$ 1.22	$ 1.18	$ 1.14	$ 1.08	$ 1.03
Equity per share at year-end	$ 21.50	$ 18.96	$ 17.24	$ 15.01	$ 10.88
Market price per share — high	$ 64.25	$ 54.59	$ 51.75	$ 49.33	$ 38.03
Market price per share — low	$ 47.01	$ 41.60	$ 41.51	$ 36.42	$ 20.84
Average shares outstanding (in 000's):					
Basic	82,313	81,866	83,347	82,058	84,143
Diluted	84,046	83,704	85,406	84,244	84,839
Other information:					
Average number of employees	18,148	17,484	14,332	13,448	12,330
Shareowners of record at end of year	12,482	12,755	13,137	13,238	13,915

* Item includes discontinued operations in 2005, 2004 and 2003. ** Shareowners' equity was reduced by $14 million in fiscal 2007 for the adoption of FIN 48, ''Accounting for Uncertainty in Income Taxes — an Interpretation of SFAS No. 109''. Shareowners' equity as of December 30, 2006 decreased $61 million from the adoption of SFAS 158, ''Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements NO. 87, 88, 106 an 132(R)''. Refer to Note A Significant Accounting Policies and Note M Employee Benefit Plans of the Notes to Consolidated Financial Statements in Item 8 for further information.

ITEM 7.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial and business analysis below provides information which the Company believes is relevant to an assessment and understanding of its consolidated financial position, results of operations and cash flows. This financial and business analysis should be read in conjunction with the consolidated financial statements and related notes.

The following discussion and certain other sections of this Annual Report on Form 10-K contain statements reflecting the Company's views about its future performance that constitute ''forward-looking statements'' under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which the Company operates and management's beliefs and assumptions. Any statements contained herein (including without limitation statements to the effect that The Stanley Works or its management ''believes'', ''expects'', ''anticipates'', ''plans'' and similar expressions) that are not statements of historical fact should be considered forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. There are a number of important factors that could cause actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth, or incorporated by reference, below under the heading ''Cautionary Statements''. The Company does not intend to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

BUSINESS OVERVIEW

The Company is a diversified worldwide supplier of tools and engineered solutions for professional, industrial, construction, and do-it-yourself (''DIY'') use, as well as engineered solutions and security solutions for industrial and commercial applications. Its operations are classified into three business segments: Construction & DIY (''CDIY''), Industrial and Security. The CDIY segment manufactures and markets hand tools, storage systems, fasteners, and electronic leveling and measuring tools, as these products are principally utilized in construction and do-it-yourself projects. These products are sold primarily to professional end users and distributed through retailers (including home centers, mass merchants, hardware stores, and retail lumber yards). The Industrial segment manufactures and markets: professional mechanics and storage systems, plumbing, heating, air conditioning and roofing tools, assembly tools and systems, hydraulic tools and specialty tools (Stanley supply and services). These products are sold to industrial customers and distributed primarily through third party distributors as well as direct sales forces. The Security segment is a provider of access and security solutions primarily for retailers, educational, financial and healthcare institutions, as well as commercial, governmental and industrial customers. The Company provides an extensive suite of mechanical and electronic security integration systems, software, related installation, maintenance, and a variety of security services including security monitoring services, electronic integration systems, software, related installation and maintenance services, automatic doors, door closers, exit devices, hardware and locking mechanisms.

For several years, the Company has pursued a diversification strategy to enable profitable growth. The strategy involves industry, geographic and customer diversification, as exemplified by the expansion of security solution product offerings, the growing proportion of sales outside the U.S., and the deliberate reduction of the Company's dependence on sales to U.S. home centers and mass merchants. Execution of this strategy has entailed approximately $2.2 billion of acquisitions since the beginning of 2002, several divestitures, and increased brand investments. Additionally, the strategy reflects management's vision to build a growth platform in security while expanding the valuable branded tools platform. Over the past several years, the Company has generated strong free cash flow and received substantial proceeds from divestitures that enabled a transformation of the business portfolio.

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Free cash flow, as defined in the following table, was $457 million in 2007, $359 million in 2006, and $294 million in 2005, considerably exceeding net earnings. Management considers free cash flow an important indicator of its liquidity, as well as its ability to fund future growth and provide a dividend to shareowners. Free cash flow does not include deductions for mandatory debt service, other borrowing activity, discretionary dividends on the Company's common stock and business acquisitions, among other items.

(Millions of Dollars)	2007	2006	2005
Net cash provided by operating activities	$ 544	$ 439	$ 362
Less: capital expenditures	(66)	(60)	(53)
Less: capitalized software	(21)	(20)	(15)
Free cash flow	$ 457	$ 359	$ 294

The Company strives to reinvest its free cash flow in high return businesses in order to generate strong return on assets and improve working capital efficiency.

Significant areas of tactical emphasis related to execution of the Company's diversification strategy, as well as events impacting the Company's financial performance in 2007 and 2006, are discussed below.

Continued Growth of Security Business

During 2007, the Company further advanced its strategy of becoming a global market leader in the commercial security industry. Annual revenues of the Security segment have grown to $1.433 billion, or 32% of 2007 sales, up from $216 million, or 10% of 2001 sales. Key events pertaining to the growth of this segment in the past year include the following:

- HSM Electronic Protection Services, Inc. (''HSM'') was acquired in January 2007 for $546 million in cash. HSM, based near Chicago, Illinois, provides security alarm monitoring services and access control systems to commercial customers via a central monitoring hub station and a network of branch locations across the U.S. HSM combines world class service and installation capabilities with a broad customer base. It is the fourth largest electronic security company and second largest commercial monitoring company in North America. The acquisition is enabling more efficient utilization of our extensive network of field technicians thus enhancing overall profitability, as the Company is in the process of a reverse integration of the pre-existing electronic security business into HSM. The addition of monitoring enables longer-term customer relationships involving value-added services and recurring revenues, which aids the repositioning of electronic security as a higher profit and higher growth business for Stanley. HSM contributed approximately $220 million in sales and 4 cents of diluted earnings per share in 2007; the relatively low contribution to net earnings reflects $36 million of non-cash intangible asset amortization, primarily for acquired monitoring service contracts, as well as interest expense on borrowings necessary to fund the acquisition.
- Upon the January 16, 2007 acquisition of HSM, the Company realigned to report three new segments effective in the first quarter of 2007: CDIY, Industrial and Security. These new segments more clearly convey the Company's growth strategies and reflect management's view of its businesses with the inclusion of HSM. Also, the Company is now presenting segment results before corporate overhead expenses, which are not allocated to the segments.
- In June, 2007 Bed-Check Corporation (''Bed Check'') was acquired for $20 million in cash. Bed-Check is a leading U.S.-based manufacturer of non-restrictive patient fall-monitoring systems used by caregivers in hospitals and other facilities. It increases the scale and expands the distribution channels of the Company's existing personal security business. A wireless key-lock manufacturer and various other small but strategic acquisitions in the security segment were

completed throughout 2007 for $21 million in cash.

The above acquisitions complement the existing Security segment product offerings, increase its scale and strengthen the value proposition offered to customers as industry dynamics favor multi-solution providers that offer ‘‘one-stop shopping’’. The Company continues to focus on integrating the acquired

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businesses as it expands the suite of its security product and service offerings. Various process improvement initiatives were initiated including integration of overlapping field service organizations and implementation of certain common back office systems. These integration efforts will continue in 2008, particularly the reverse integration of the legacy electronic security business into HSM.

Drive Further Profitable Growth in Branded Tools and Storage

While diversifying the business portfolio through expansion into Security is important, management also recognizes that the branded construction & do-it-yourself products and industrial businesses are the foundations on which the Company was established and provide strong growth and cash flow generation prospects. Management is committed to growing these strong and profitable businesses through innovative product development, brand support and relentless focus on global cost competitiveness to foster vitality over the long term. Acquisition-related growth will also be pursued where appropriate. The following matters affected the branded tool and storage businesses:

- The Company has focused on innovation in order to enhance its product development pipeline and reduce commercialization cycle time. In 2007, new product roll-outs included over 250 hand tool and storage products. In 2006, the largest new hand tools product introduction in the Company's history was successfully launched. The FatMax®Xtreme™ product line commenced shipping at the end of March 2006 and was supplemented by a second phase roll-out initiated in September 2006, which included the initial launch of FatMax®XL™ products in European markets.
- In July, 2007 the Company acquired Innerspace Products Corporation (''Innerspace''), which has a strong presence in the growing healthcare storage market and offers made-to-order storage solutions for medical facilities across the U.S. Innerspace provides a strong strategic fit for the Company's existing Vidmar storage business and reported 2006 sales of $22 million.
- In January 2006, the Company completed the acquisition of Facom S.A. (''Facom'') for 407 million euros ($480 million) which was financed with a combination of cash on hand and debt issuance. Facom, based in France, is a leading European manufacturer of hand and mechanics tools with annual revenues approximating $475 million. Facom designs, manufactures and markets the majority of its tool product offerings to professional automotive and industrial end users with its well-known industrial tool brands: Facom®, Virax® and USAG®. Facom operates primarily within the premium industrial and automotive tools sector in Europe, while the Company's pre-existing European customer base is focused mainly on the construction and DIY channels. As a result, the two businesses complement each other and benefit from joint efforts in areas such as product sourcing and procurement. Facom is profitable and has experienced a long history of success in professional markets in Europe, especially in France and Italy. Nonetheless, many of its products are subject to competitive forces that required a significant reformation of its cost structure and that of existing Stanley Europe. This reformation has enhanced the long-term competitiveness and should help to preserve the Facom and Stanley tool franchises in Europe. The restructuring program reduced costs by rationalizing manufacturing, logistics, sales and support organizations. It has resulted in the closure of six facilities and the severance of approximately 450 people since commencing in the latter part of 2006. While the actions were completed during 2006 and 2007, $18 million in cash payments will continue into 2008.
- In July 2006, the Company acquired approximately 67% of the outstanding shares of Besco Pneumatic Corporation (''Besco''), a leading Asian manufacturer of pneumatic tools for $38 million in cash. Each year until 2011, the Company will have the option to increase its ownership by up to 15% to an ultimate ownership of 82%. Besco, which is headquartered in Taiwan, possesses state-of-the-art research and development capabilities and efficient production facilities. Besco was historically a supplier to Stanley fastening systems as well as third parties. The acquisition was a key step in reducing the fastening systems business' cost structure.

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Continue to Invest in the Stanley Brand

The Stanley® brand is recognized as one of the world's great brands and is one of the Company's most valuable assets. Brand support was increased over the past several years, including television advertising campaigns associated with new product roll-outs, continued NASCAR racing sponsorships as well as more print and web-based advertising that generated approximately one billion brand impressions annually. These advertising and marketing campaigns yielded strong results as evidenced by various hand tools metrics during 2007: web traffic increase of 20%; sales lead increase of 30%; and brand awareness increase of 34% versus 2006.

Institutionalize the Stanley Fulfillment System

The Company continued to practice the operating disciplines encompassed by the Stanley Fulfillment System (''SFS''), which is a continuous operational improvement process committed to increasing customer and shareowner value. The SFS core disciplines consist of striving for perfect quality, service excellence, optimal cost, and environmental health & safety. The Company applies SFS to many aspects of its business including procurement, maximizing customer fill rates, and acquisition integration. The SFS program helped to mitigate the impact of material and energy price inflation that was experienced in recent years. SFS was instrumental in the reduction of inventories during 2007 and the related improvement in working capital turnover. In 2008 and beyond, the Company plans to further leverage SFS to achieve higher working capital turns, decreased cycle times, reduced complexity in operations and increased customer satisfaction.

Aside from the strategic commentary above, four other matters having a significant impact on the Company's results were inflation, currency exchange rate fluctuations, share repurchases and stock option expensing.

The Company has been negatively impacted by inflation, primarily commodity and freight, which has increased costs by an estimated $165 million over the past three years. During this period, approximately two-thirds of the cost increase was recovered through pricing actions, and the remainder was largely offset through various cost reduction initiatives. The Company expects the negative impact of inflation affecting production and distribution costs during 2008 will be in the range of $75 – $80 million, inclusive of new tariffs on fasteners imported from Asia. Management plans to recover the majority of this impact through customer pricing, and offset the remainder through plant productivity actions.

In recent years, the strengthening of foreign currencies had a favorable impact on the translation of foreign currency-denominated operating results into U.S. dollars. The favorable impact of foreign currency translation, including acquired companies, contributed an estimated $.19, $.05 and $.04 of diluted earnings per share from continuing operations in 2007, 2006 and 2005, respectively. Fluctuations in foreign currency exchange rates relative to the U.S. dollar may have a significant impact, either positive or negative, on future earnings.

During 2007 and 2006, the Company executed share repurchases of 3.6 million and 4.0 million outstanding shares of its common stock, respectively, for $200 million in each year. The stock repurchases were accretive to diluted earnings per share by 6 cents in 2007, and 13 cents in 2006. The 2007 stock buy-backs occurred later in the year than the related 2006 activity; accordingly, the benefit of the 2007 repurchase activity will not be fully reflected in weighted average shares outstanding used to compute earnings per share until 2008. The share repurchase benefit was partially offset by the issuance of 4.4 million shares of common stock under various employee plans over the two year period, and also by higher interest expense associated with short-term borrowings made to finance the share repurchases. In January 2008 the Company repurchased an additional 2.2 million of shares.

In 2006, the Company adopted Financial Accounting Standards Board Statement No. 123 (revised 2004), ‘‘Share-Based Payment’’ (‘‘SFAS 123R’’), which requires all share-based payments, including grants of employee stock options, to be recognized as an expense in the Consolidated Statement of Operations based on their fair values as they are earned by the employees under the vesting terms.

Pursuant to the adoption of SFAS 123R, the Company recognized $9 million of non-cash, pre-tax stock option compensation expense in both 2007 and 2006, which reduced diluted earnings per share by 7 cents in each year compared to 2005. Refer to Note A Significant Accounting Policies of the Notes to the Consolidated Financial Statements for further discussion of the adoption of SFAS 123R.

RESULTS OF OPERATIONS

Below is a summary of the Company's operating results at the consolidated level, followed by an overview of business segment performance. The terms ''organic'' and ''core'' are utilized to describe results aside from the impact of acquisitions during their initial 12 months of ownership. This ensures appropriate comparability to operating results of prior periods.

Net Sales: Net sales from continuing operations were $4.484 billion in 2007, as compared to $4.019 billion in 2006, a 12% increase. Acquisitions, principally HSM, contributed 7% in higher sales. Organic volume and pricing both increased 1%, while favorable foreign currency translation in all regions increased sales 3% versus the prior year. Strong performance in the Industrial segment, particularly by the hydraulic and mechanics tools businesses, was supplemented by more modest gains in the CDIY and Security segments. CDIY achieved robust growth internationally that was partially offset by weakness in the U.S. associated with housing market declines. In the Security segment, solid gains by the automatic door and mechanical lock businesses, as well as overall pricing actions, more than compensated for lower sales in the legacy electronic security integration business as it shed unprofitable equipment installations.

Net sales from continuing operations were $4.019 billion in 2006, as compared to $3.285 billion in 2005, a 22% increase. Acquisitions contributed 21% or $689 million of the sales increase. Organic sales increased 1% driven by a slight increase in volume and relatively consistent pricing levels and foreign currency impact compared to the prior year. The organic increase was generated by share gains achieved in the consumer hand tools and automatic doors businesses offset by price and volume declines experienced in the fastening systems business. Favorable foreign currency translation in the Americas and Europe was partially offset by a negative impact from Asia.

Gross Profit: The Company reported gross profit from continuing operations of $1.692 billion, or 38% of net sales, in 2007, compared to $1.459 billion, or 36% of net sales, in 2006. The acquired businesses increased gross profit by $136 million. Core gross profit for 2007 was $1.557 billion, or 37% of net sales, up $98 million from the prior year. The core gross margin rate expanded on strong performances from certain Industrial segment businesses, primarily Facom and mechanics tools, as well as the absence of $22 million of inventory step-up amortization from the initial turnover of acquired inventory in 2006. This was partially offset by a decline in the CDIY segment gross margin rate mainly from un-recovered cost inflation. In addition, the legacy security integration business had lower margins on certain equipment installations. Price and productivity actions in 2007 more than offset $67 million of material, energy and wage cost inflation. The Company expects such inflation to increase 2008 costs by $75 – $80 million, which management plans to mitigate through various customer pricing actions and continued cost reduction and productivity initiatives.

The Company reported gross profit from continuing operations of $1.459 billion in 2006, or 36% of net sales, compared to $1.181 billion, or 36% of net sales, in 2005. The acquired businesses increased gross profit by $265 million. Included in the 2006 gross profit is the unfavorable impact of $22 million in non-cash inventory step-up charges related to the initial turnover of acquired inventory. Gross profit for 2006 was 37% of net sales excluding this non-recurring item, primarily due to the positive impact of the Facom acquisition. Core gross profit as a percentage of net sales was 36% in 2006, which was consistent with the prior year. The benefits of prior cost reduction actions, productivity improvements from the Stanley Fulfillment System, and pricing actions offset continued margin pressure from commodity and other inflation which resulted in approximately $48 million of additional costs, and a decline in fastening systems. The fastening systems gross profit decline reflected lower sales volumes, a result of weakening housing markets, and price erosion, as well as a commitment to shed unprofitable business; gross profit in this business was further impacted by commodity cost inflation. Management launched an extensive cost reduction initiative in 2006 with the objective to return fastening systems to acceptable profitability levels.

SG&A expenses: Selling, general and administrative expenses were $1,058 million, or 24% of net sales, in 2007 consistent with the 24% of sales represented by $955 million of expense in 2006. Acquired companies contributed $70 million of the increase, and the remaining $33 million increase is largely attributable to foreign currency translation.

SG&A from continuing operations was $955 million, or 24% of net sales, in 2006 compared to $737 million, or 22% of net sales, in the prior year. The increase of $218 million primarily relates to acquired businesses that increased costs by $192 million, $11 million of increased non-cash stock compensation expense associated with the adoption of stock option expensing during 2006, and $11 million of increased brand support. Excluding acquisitions, SG&A as a percentage of sales increased slightly to 23% of net sales compared with 22% in 2005 due to the items described above, partially offset by benefits received from prior restructuring actions.

Interest and Other-net: Net interest expense from continuing operations in 2007 was $80 million, compared to $65 million in 2006. The higher interest expense stems from borrowings necessary to fund the January 2007 acquisition of HSM. Refer to the Financial Condition section for additional discussion of the HSM acquisition financing.

Net interest expense from continuing operations in 2006 was $65 million, compared to $34 million in 2005. The increase was mainly due to the November 2005 issuance of $450 million in junior subordinated debt securities to fund acquisitions, and to a lesser extent increased commercial paper borrowings resulting primarily from the execution of the $200 million share repurchase program in the first half of 2006, along with higher applicable short-term interest rates.

Other-net from continuing operations totaled $90 million of expense in 2007 compared to $57 million of expense in 2006. The increase pertained primarily to higher intangible asset amortization expense due to recent acquisitions.

Other-net from continuing operations represented $57 million of expense in 2006 compared to $48 million of expense in 2005. The increase was primarily driven by $9 million of higher intangible asset amortization expense associated with acquisition activity, a $4 million pension plan curtailment charge in the U.K., and a $5 million increase in foreign currency losses, partially offset by lower environmental expense and decreased losses on the sale of fixed assets.

Income Taxes: The Company's effective income tax rate from continuing operations for 2007 was 25% as compared to 21% for 2006 and 24% for 2005.

The higher effective tax rate in 2007 versus 2006 mainly relates to benefits realized upon resolution of tax audits in 2006 that did not re-occur. The lower effective tax rate in 2006 compared to 2005 was driven by the realization of credits against U.S. taxes and the inclusion of the European-based Facom acquisition. Additionally, substantial costs were incurred in 2005 for the repatriation of foreign earnings under the American Jobs Creation Act and such costs were not incurred in 2006.

Business Segment Results

The Company's reportable segments are an aggregation of businesses that have similar products and services, among other factors. The Company utilizes segment profit (which is defined as net sales minus cost of sales, and SG&A aside from corporate overhead expense), and segment profit as a percentage of net sales to assess the profitability of each segment. Segment profit excludes the corporate overhead expense element of SG&A, interest income, interest expense, other-net (inclusive of intangible asset amortization expense), restructuring and asset impairments, and income tax expense. Corporate overhead is comprised of world headquarters facility expense, cost for the executive management team and cost for certain centralized functions that benefit the entire Company but are not directly attributable to the businesses, such as legal and corporate finance functions. Refer to Note O Restructuring and Asset Impairments and Note G Goodwill and Other Intangible Assets of the Notes to the Consolidated Financial Statements for the amount of restructuring charges and asset impairments, and intangibles amortization expense, respectively, attributable to each segment. As discussed previously, the Company’s operations are classified into three business segments: Construction and Do-It-Yourself (‘‘CDIY’’), Industrial and Security.

CDIY:

(Millions of Dollars)	2007	2006	2005
Net sales from continuing operations	$ 1,795	$ 1,724	$ 1,681
Segment profit from continuing operations	$ 270	$ 271	$ 269
% of Net sales	15.0 %	15.7 %	16.0 %

CDIY net sales from continuing operations increased 4% in 2007 from 2006. Foreign currency translation contributed 3% to the higher sales, pricing 1%, and organic volume remained flat. The U.S. was adversely impacted by the housing market contraction as repair and remodel activity declined along with new construction. Sales were very strong in Canada, Europe, Australia, and Asia, in particular for the consumer tools and storage business. This positive international performance was bolstered by new product introductions including the FatMax XL line, as well as favorable economic conditions outside the U.S. Fastening systems also experienced an overall decline in sales due to the U.S. housing down-turn, although its industrial channel and office product sales remained stable. During 2007, the Company took actions to improve the fastening systems cost structure including a Mexican plant closure, and the first wave of a pneumatic tool production shift to Asia, enabled by the 2006 Besco acquisition. As a result, fastening systems improved its margin rate slightly, despite the lower sales volume. The Company is on track to complete the migration of a second wave of fastening systems tool production to Asia during 2008, which should further help return this business to acceptable long term profitability. The segment profit rate decline of 70 basis points was mainly attributable to un-recovered cost inflation, a product mix shift to lower margin tools along with a channel mix shift in the U.S., and unfavorable absorption on inventory reductions. These factors were partially offset by the favorable impact of foreign currency translation and the previously mentioned improvement in the fastening systems business.

Net sales from continuing operations increased 3% in 2006 compared to 2005. Of this increase, acquisitions accounted for 3%, while organic volume decreased by 1% and price remained flat. Foreign currency increased sales by 1%. The consumer hand tool business continued to achieve share gains from the strong performance of the new FatMax®Xtreme™ and FatMax®XL™ product lines which launched in the U.S. and European markets, representing the largest new hand tools product introduction in the Company’s history. At the same time, the FatMax® range of product offerings delivered growth though continued premium innovation, distribution point expansion and related brand support. This strong favorable performance was more than offset by lower volumes in the fastening, consumer storage and mechanics tools businesses. Fastening systems organic sales declined 7% compared to the prior year stemming from weakness in the U.S. construction market and management’s commitment to turn down unprofitable business. Sales in the consumer storage business in 2005 reflected higher volume from the initial launch of garage storage products. The 30 basis point decrease in segment profit in 2006 versus 2005 is primarily due to the sales volume decline and cost inefficiencies experienced by the U.S. fastening systems business, increased brand support, and commodity cost inflation, partially offset by savings derived from prior cost reduction actions and favorable mix in the consumer hand tools business. During 2007, progress was made on the two-year plan to restore the fastening systems profits to acceptable levels by continuing the migration of production to Asia, reducing overall SG&A and the manufacturing footprint, as well as SKU rationalization. In this regard, the acquisition of Asian-based Besco and the opening of a new manufacturing facility in China during 2006 strategically aided the long term vitality of fastening systems.

Industrial:

(Millions of Dollars)	2007	2006	2005
Net sales from continuing operations	$ 1,256	$ 1,138	$ 681
Segment profit from continuing operations	$ 184	$ 124	$ 81
% of Net sales	14.7 %	10.9 %	11.8 %

Industrial segment net sales increased 10% in 2007 from 2006, comprised of a 4% volume increase, a 4% favorable foreign currency impact, 1% favorable pricing, and 1% from the Innerspace acquisition.

Hydraulic tools and mechanics tools achieved robust sales increases, along with strong performance from the Facom and storage businesses. The hydraulic tools sales increase is attributable to sustained high demand for recent shear product offerings, strong international sales, and favorable steel scrap markets. Industrial mechanics tools benefited from strong demand in the U.S. oil and gas industry. The higher Facom sales pertain to new product introductions and improved European economic conditions. Intensified marketing efforts, including an expanded sales force, contributed to the Vidmar storage growth. Segment profit as a percentage of net sales improved 380 basis points. Excluding the effect of the one-time inventory step-up charge from the initial turn of Facom acquired inventory in 2006, segment profit increased 270 basis points. Customer price increases effectively offset the impact of cost inflation, while productivity initiatives further contributed to the segment profit rate expansion. Additionally, Facom's contribution to the higher segment profit rate reflects favorable currency translation and the benefits of acquisition integration actions.

Industrial's net sales increased 67% in 2006 compared to 2005, primarily due to the Facom acquisition which increased sales by $436 million or 64%. Favorable pricing actions contributed 2%, while volume increased sales 1% with foreign currency remaining flat compared to the prior year. Sales growth was delivered by the Mac Tools, Facom, hydraulic tools, industrial tools and storage businesses. Mac Tools benefited in 2006 from improved retention of its distributors based on management actions initiated early in the year. Industrial tools and storage and the hydraulic tools businesses obtained share gains from the success of new product introductions in the oil and mining industries as demand for such commodities remained strong during 2006. Segment profit as a percentage of net sales decreased by 90 basis points due to $13 million of non-cash inventory step-up amortization associated with the Facom acquisition and supply chain inefficiencies in certain businesses pertaining to increased backlog, partially offset by the accretive impact of Facom.

Security:

(Millions of Dollars)	2007	2006	2005
Net sales from continuing operations	$ 1,433	$ 1,157	$ 924
Segment profit from continuing operations	$ 242	$ 172	$ 149
% of Net sales	16.9 %	14.8 %	16.1 %

Security segment sales increased 24% in 2007. HSM and other acquisitions contributed 21%, while price and organic volume grew a combined 2%, and currency 1%. Organic sales gains in automatic doors and mechanical locks were achieved on the strength of national and strategic account growth, while the hardware business demonstrated resilience in recovering from the loss of a key customer. Effective pricing actions to recover inflation in raw material costs also contributed to sales growth in the segment. Shrinkage in the legacy U.S. security integration (''USSI'') business' sales and segment profit was a necessary by-product of a business model change entailing a shift away from low profitability equipment installation to an emphasis on higher margin, recurring service revenues. The reverse integration of USSI into HSM, with its superior bidding and project management disciplines, is progressing well and management believes it will rebound in later 2008. The broader security segment product line is enabling the Company to compete more effectively in the architectural bidding process to attain gains in commercial construction markets. The 2007 segment profit rate showed a strong expansion of 210 basis points over 2006. This improvement is attributable to HSM, the non-recurring inventory step-up amortization for the National hardware acquisition recorded in 2006, the benefits of a partial shift in hardware production to Asia, and overall pricing and productivity in excess of inflation. These positive factors were partially offset by the previously discussed decline in the legacy security integration businesses.

During 2006, Security's sales increased 25%. Acquisitions, predominantly National, contributed 21%, organic sales volume 2%, pricing 1%, and currency 1%. The automatic doors business grew its service revenue and achieved strong national account share gains driven by the favorable impact of new product introductions, new store openings and increased modernization of pre-existing stores. The mechanical access businesses also benefited from new product introductions and an expanded ability to provide customers with virtually all of their varied mechanical product needs. In addition, the Security segment as a whole benefited from the growth and continued integration of its national service footprint. The 2006 segment profit as a percentage of net sales was 130 basis points lower than 2005 as the favorable impact from prior cost reduction and integration actions were negated by $8 million of non-cash inventory step-up amortization from acquisitions, and the dilutive impact of National hardware margins due to its legacy high-cost manufacturing structure which the Company continues to transition to low cost countries. The segment operating profit rate was further affected by commodity cost inflation and the dilutive impact of other recently acquired companies until integration initiatives unfold.

RESTRUCTURING ACTIVITIES

At December 29, 2007, the restructuring and asset impairment reserve balance was $23.7 million, which the Company expects to largely utilize by the end of 2008. A summary of the restructuring reserve activity from December 30, 2006 to December 29, 2007 is as follows:

(Millions of Dollars)	12/30/06 Accrual	Acquisition Accrual	Net Additions	Usage	Currency	12/29/07
Acquisitions						
Severance	$ 54.7	$ (0.3)	$ —	$ (39.4)	$ 3.8	$ 18.8
Facility Closure	2.4	1.9	—	(2.8)	0.1	1.6
Other	1.5	—	0.3	(0.8)	—	1.0
2007 Actions	—	—	11.8	(10.6)	—	1.2
Pre-2007 Actions	4.5	—	0.7	(4.3)	0.2	1.1
	$ 63.1	$ 1.6	$ 12.8	$ (57.9)	$ 4.1	$ 23.7

2007 Actions: During 2007, the Company initiated cost reduction initiatives in order to maintain its cost competitiveness. Severance charges of $11.4 million have been recorded relating to the reduction of approximately 525 employees. In addition to severance, $0.2 million was recorded for the closure of a merged office facility and $0.2 million for asset impairments. Of these amounts, $10.6 million has been utilized to date, with $1.2 million of reserves remaining as of December 29, 2007.

Pre-2007 Actions: During 2006 and 2005, the Company initiated $18.3 million of cost reduction actions in various businesses, of which $0.7 million was recorded during 2007, $13.0 million was recorded in 2006 and $4.6 million was recorded in 2005. These actions were comprised of the severance of approximately 950 employees and the exit of a leased facility. Of this amount, $18.2 million has been utilized to date, offset slightly by a $0.2 million currency impact, leaving $0.3 million of accrual remaining as of December 29, 2007. In addition, $0.8 million of reserves remain relating to pre-2005 actions.

Acquisition Related: During 2007, $3.0 million of reserves were established for HSM in purchase accounting. Of this amount $1.1 million was for severance of approximately 55 employees and $1.9 million related to the closure of 13 branch facilities. As of December 29, 2007, $0.8 million has been utilized, leaving $2.2 million remaining. The Company also utilized $1.2 million of restructuring reserves during 2007 established for various minor prior year acquisitions. As of December 29, 2007, $1.2 million in accruals for these small actions remains.

Pursuant to the integration of the January 2006 Facom acquisition, and the related reorganization of Facom and Stanley hand tools activities in Europe, the Company implemented restructuring initiatives. These initiatives reduced the cost structure by rationalizing manufacturing, logistics, sales and support organizations. This resulted in the severance of approximately 450 employees, the closure of two legacy Facom factories in France, as well as four legacy Facom distribution centers located in the United Kingdom, Belgium, Germany and Switzerland. Of the $60.4 million in total expenditures for these initiatives, $59.4 million was recorded to the Facom purchase price allocation and $1.0 million as a restructuring charge in 2006. As of December 29, 2007, $46.3 million has been utilized, partially offset by a $3.9 million currency impact, such that an $18.0 million accrual remains.

In connection with its acquisition of National in late 2005, the Company recorded $8.0 million relating to severance costs for approximately 250 employees and $0.3 million facility closure costs to the

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purchase price allocation. In addition, $0.2 million of facility closure costs were recorded as restructuring charges in 2006. As of December 29, 2007, most of this accrual has been utilized, with the remaining $1.4 million excess reversed as a reduction of Goodwill, such that no accrual remains.

FINANCIAL CONDITION

Liquidity, Sources and Uses of Capital: The Company's primary sources of liquidity are cash flows generated from operations and borrowings under various credit facilities.

Operating and Investing Activities: The Company has consistently generated strong operating cash flows over many years. In 2007, cash flow from operations totaled $544 million, up $105 million compared to 2006. The favorable increase principally stems from an expansion of cash earnings and improved working capital performance. In this regard, the higher non-cash intangibles amortization expense from acquisitions reduced earnings but not cash flows. Working capital (receivables, inventories and accounts payable) generated $23 million of higher cash inflows in 2007 compared with 2006. This working capital improvement reflects leaner inventory positions achieved through process improvement efforts, while maintaining customer service levels, and was accomplished despite lower receivable sale proceeds in 2007 versus 2006. These favorable impacts were partially offset by cash outflows for restructuring activities which amounted to $58 million in 2007, an increase of $29 million over 2006, primarily pertaining to payments for the Facom Europe initiatives.

In 2006, cash flow from operations was $439 million compared to $362 million in 2005. The $77 million improvement in 2006 versus 2005 is mainly attributable to higher cash earnings on the strength of acquisitions, reflecting the removal of increased non-cash expenses in 2006 (particularly inventory step-up amortization associated with acquisitions, intangible asset amortization expense and stock-based compensation expense). Receivables, inventories and accounts payables generated $11 million of higher cash inflows in 2006 compared with 2005 due to increased receivable sales. These favorable impacts were partially offset by cash outflows for restructuring activities which amounted to $29 million in 2006, an increase of $20 million over 2005.

Capital expenditures were $87 million in 2007, $80 million in 2006, and $68 million in 2005. The higher capital expenditures in 2007 pertained to investments for plant productivity improvements as well as ongoing information system spending for a major SAP implementation underway in the Americas. The increase in 2006 capital expenditures versus 2005 was due to upgrades of information systems, the incremental impact of normal capital spending incurred by recent acquisitions, and equipment purchases related to new product introductions. The Company expects future capital expenditures to increase approximately in proportion to its sales growth.

Free cash flow, as defined in the following table, was $457 million in 2007 representing a 29% increase over 2006, which in turn was up 23% versus 2005. Management considers free cash flow an important indicator of its liquidity, as well as its ability to fund future growth and provide a dividend to shareowners. Free cash flow does not include deductions for mandatory debt service, other borrowing activity, discretionary dividends on the Company's common stock and business acquisitions, among other items.

(Millions of Dollars)	2007	2006	2005
Net cash provided by operating activities	$ 544	$ 439	$ 362
Less: capital expenditures	(66)	(60)	(53)
Less: capitalized software	(21)	(20)	(15)
Free cash flow	$ 457	$ 359	$ 294

Based on its demonstrated ability to generate cash flow from operations as well as its strong balance sheet and credit position at December 29, 2007, the Company believes it has the financial flexibility to deploy capital to the advantage of its shareholders' advantage through a combination of acquisitions, dividends, debt repayment, and potential future share repurchases.

In 2007, acquisition spending totaled $643 million, mainly for the HSM, Bedcheck and Innerspace businesses. 2006 acquisition spending amounted to $572 million, primarily pertaining to Facom and

Besco, and $20 million of debt repayments associated with the 2004 acquisition of Blick. Pursuant to its profitable growth strategy, the Company will continue to assess its current business portfolio for disposition opportunities and make acquisitions in favored markets while minimizing the risk associated with large customer concentrations.

During 2006, the Company entered into a sale-leaseback transaction of its corporate headquarters building. Under the terms of the transaction, the Company received $23 million in cash proceeds, reported in investing cash flows, and recorded a deferred gain of $11 million which will be amortized over the 15 year operating lease term. The cash proceeds were utilized to pay down short-term borrowings.

Financing Activities: Payments on long-term debt amounted to $228 million in 2007, $4 million in 2006, and $72 million in 2005. Net proceeds from short-term borrowings totaled $192 million in 2007, and the cash inflows were used to fund acquisitions and repurchases of common stock. Repayments of short-term borrowings amounted to a cash outflow of $66 million in 2006 as commercial paper was paid down utilizing a portion of the strong operating cash flows. Net proceeds from short term borrowings of $103 million in 2005 primarily arose from commercial paper issued to fund the 2005 acquisitions aside from National.

There is a $550 million committed long-term credit facility that matures in October 2009, which is designated as a liquidity back-stop for the commercial paper program. As of December 29, 2007, there were no outstanding loans under this facility and the Company had $279 million of commercial paper outstanding. The Company is in negotiations with its credit banks to increase this line to $800 million and extend the maturity to February 2013, and does not anticipate anything that would inhibit the successful conclusion of that increase and extension. In addition, the Company has uncommitted short-term lines of credit with numerous foreign banks aggregating $340 million, of which $322 million was available at December 29, 2007. Short-term arrangements are reviewed annually for renewal. Aggregate credit lines amounted to $890 million. In addition to these lines of credit, the Company maintains a committed facility designed for the securitization of certain trade accounts receivable for purposes of additional liquidity. As of December 29, 2007, the Company's maximum available funds under this arrangement were $66 million, of which $42 million was utilized.

The Company increased its cash dividend per common share to $1.22 in 2007. Dividends per common share increased 3.4% in 2007, 3.5% in 2006, and 5.5% in 2005.

In 2007, the Company repurchased 3.8 million shares of its common stock for $207 million (an average of $54.64 per share), and in 2006 it repurchased 4.0 million shares for $202 million (an average of $50.07 per share). The Company may decide to repurchase more of its outstanding common stock, based on various factors including the level of acquisition activity, the market price of the common stock and its current financial condition.

The Company initially funded the $546 million HSM acquisition with a combination of short-term borrowings and cash. A $500 million 364-day revolving credit bridge facility was entered into on January 8, 2007, of which $130.0 million was utilized to acquire HSM; the remainder of the HSM purchase price was funded through commercial paper borrowings and cash.

On March 20, 2007, the Company completed two security offerings: ''Equity Units'', which consisted of $330 million of five-year convertible notes and $330 million of three-year forward stock purchase contracts; and $200 million of unsecured three-year fixed-rate term notes. With respect to the $860 million in offerings, the Company will not receive the $330 million of cash pertaining to the forward stock purchase contracts until May, 2010. The $488 million net cash proceeds of these offerings and the related equity instruments described below were used to pay down the short-term bridge facility and commercial paper borrowings.

The convertible notes are pledged and held as collateral to guarantee the Equity Unit investors' obligation to purchase shares in May, 2010 under the stock purchase contract. The convertible notes reflect a conversion price of approximately \$64.80, or a 19% premium as of the date of issuance. At maturity, the Company must repay the convertible note principal in cash. Additionally, to the extent that the conversion option is ‘‘in the money’’ the Company, at its election, will deliver either cash or

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shares of common stock based on a conversion rate and the applicable market value of the Company's common stock at that time. A maximum of approximately 6.1 million shares may be issued in May, 2010 under the stock purchase contracts, essentially at the higher of approximately $54.45 or market value at that time.

The Company simultaneously entered into related convertible note hedge and stock warrant transactions with financial institutions. Share dilution pertaining to the conversion option of the convertible notes will occur in interim periods if the share price exceeds approximately $64.80. At maturity in 2012, the convertible note hedge will offset the potentially dilutive impact of the conversion option aspect of the convertible notes. Because the convertible note hedge is anti-dilutive, it will not be included in any diluted shares outstanding computation prior to its maturity. However at maturity, the aggregate effect of the convertible notes and the convertible note hedge is that there will be no net increase in the Company's common shares. The Company also issued 5.1 million of unregistered stock warrants that are exercisable during the period August 17, 2012 through September 28, 2012, with a strike price of $87.12 (subject to standard anti-dilution protection for increases in the dividend rate, stock splits etc.). In the event the stock warrants become ''in the money'' during their 5 year term, due to the market value of the Company's common stock exceeding the strike price, there will be a related increase in diluted shares outstanding utilized in the determination of diluted earnings per share.

The combined terms of the convertible note hedge, stock warrants, and convertible notes in substance re-establish the conversion option aspect of the convertible notes at 60% above the $54.45 market value of the Company's common stock at inception, such that in effect the Company will retain the benefits of share price appreciation, if any, up to a market value equal to the stock warrant strike price. Additionally the Company will retain benefits of share price appreciation through the maturity of the stock purchase contract element of the Equity Units that will entail issuance of $330 million of common shares at the higher of approximately $54.45 or market price in May 2010. Refer to Note I, Long-Term Debt and Financing Arrangements for further detail.

Under present accounting rules the entire $330 million convertible note obligation is reflected in long-term debt on the Company's balance sheet, and the interest expense is being recognized thereon at a variable rate of 3-month LIBOR minus 3.5% (currently 1.2%) for the first three years, with the interest rate to be reset upon remarketing of the notes for the final two years they are outstanding. Such interest expense recognizable under current accounting rules will equal the cash interest payments to be made. An exposure draft issued by the FASB in August 2007, FSP APB 14-a ''Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)'', if issued in its current form, would require a portion (approximately $60 million) of the convertible notes to be reclassified to equity and accreted to interest expense over the five year term of the convertible notes. Accordingly, interest expense would be reported at the Company's non-convertible borrowing rate at the time of issuance, an annual rate of approximately 3-month LIBOR plus 0.2% (currently 4.9%), which would result in the recognition of $12 – $13 million of additional annual non-cash interest expense, an impact of approximately 10 cents per diluted share per year. FASB is re-deliberating the exposure draft proposing this change to report non-cash interest expense and it is expected that any such change to the accounting for the convertible notes would not occur until at least fiscal 2009.

In November 2005, the Company consummated a Section 144A offering, with registration rights, of $450 million of Enhanced Trust Preferred Securities (''ETPS'') through its unconsolidated trust subsidiary, The Stanley Works Capital Trust I (''the Trust''). Contemporaneously, the Company borrowed the proceeds of the ETPS offering from the Trust by issuing $450 million of junior subordinated debt securities payable to the Trust. The net proceeds were used to partially fund the acquisitions of National and Facom which closed on November 30, 2005 and January 1, 2006, respectively. These securities and underlying junior subordinated debt securities (collectively, the ''securities'') feature a 5 year fixed rate period ending December 1, 2010 and a floating rate period ending December 1, 2045. The fixed coupon was set at 5.902%. The obligations, tenor and terms of the ETPS mirror those of the junior subordinated debt securities. The securities can be redeemed by the Company on or after December 1, 2010 without penalty for early payment.

Debt to Capital Ratio: The Company’s debt to capital ratio was 47% at the end of 2007, 39% at the end of 2006, and 42% at the end of 2005. Reflecting the credit protection measures that are incorporated into the terms of the $450 million ETPS issued in late 2005, and the equity characteristics of the 2007 issuance of $330 million Equity Units, the debt to capital ratio of the Company is more fairly represented by apportioning equity credit to the ETPS and Equity Units issuances when making the calculation. The resulting debt to capital ratio from this apportionment is 32% – 35% as of December 29, 2007. This adjustment is consistent with the treatment accorded these securities by the nationally recognized statistical ratings organizations that rate the Company’s debt securities and accordingly the equity-content-adjusted debt to capital ratio is considered a relevant measure of its financial condition.

The following table reconciles the December, 2007 debt to capital ratio computed with reported debt and equity to the same measure after the equity content adjustments attributed to the ETPS and Equity Unit securities:

(Millions of Dollars)	Reported on Balance Sheet (GAAP)	Range of Hybrid Equity Content Adjustment	As Adjusted for Equity Content – Range (Non-GAAP)
Debt	$ 1,505	$(390) – $(473)	$1,032 – $1,115
Equity	$ 1,728	$390 – $473	$2,118 – $2,201
Capital (debt + equity)	$ 3,233	—	$ 3,233
Debt to capital ratio	47 %	—	32% – 35%

Contractual Obligations: The following summarizes the Company's significant contractual obligations and commitments that impact its liquidity:

Payments Due by Period

(Millions of Dollars)	Total	2008	2009 – 2010	2011 – 2012	Thereafter
Long-term debt	$ 1,222	$ 10	$ 222	$ 539	$ 451
Interest payments on long-term debt(a)	315	52	99	81	83
Operating leases	122	35	43	25	19
Derivatives(b)	81	3	72	1	5
Equity purchase contract fees	42	17	25	—	—
Material purchase commitments	29	11	18	—	—
Deferred compensation	23	4	4	5	10
Outsourcing and other obligations(d)	21	18	3	—	—
Pension funding obligations(c)	15	15	—	—	—
Total contractual cash obligations	$ 1,870	$ 165	$ 486	$ 651	$ 568

(a) Future interest payments on long-term debt reflect the applicable fixed interest rate or the variable rate in effect at December 29, 2007 for floating rate debt. (b) Future cash flows on derivative financial instruments reflect the fair value as of December 29, 2007. The ultimate cash flows on these instruments will differ, perhaps significantly, based on applicable market interest and foreign currency rates at their maturity. (c) The Company anticipates that funding of its pension and postretirement benefit plans in 2008 will approximate $15 million. That amount principally represents contributions either required by regulations or laws or, with respect to unfunded plans, necessary to fund current benefits. The Company has not presented estimated pension and postretirement funding in the table above beyond 2008 as funding can vary significantly from year to year based upon changes in the fair value of the plan assets, actuarial assumptions, or curtailment/settlement actions. (d) To the extent the Company can reliably determine when payments will occur pertaining to unrecognized tax benefit liabilities, the related amount will be included in the table above. However, due to the high degree of uncertainty regarding the timing of potential future cash flows associated with the $49 million of such liabilities at December 29, 2007, the Company is unable to make a reliable estimate of when (if at all) amounts may be paid to the respective taxing authorities.

Aside from debt payments, for which there is no tax benefit associated with repayment of principal, payment of the above contractual obligations will typically generate a cash tax benefit such that the net cash outflow will be lower than the gross amounts indicated.

Other Commercial Commitments

Amounts of Commitments Expiration Per Period

(Millions of Dollars)	Total	2008	2009 – 2010	2011 – 2012	Thereafter
U.S. lines of credit	$ 550	$ —	$ 550	$ —	$ —
U.S. receivables securitization facility	66	66	—	—	—
Total commercial commitments	$ 616	$ 66	$ 550	$ —	$ —

Short-term borrowings, long-term debt and lines of credit are explained in detail within Note I Long-Term Debt and Financing Arrangements of the Notes to the Consolidated Financial Statements. Operating leases and other commercial commitments are further detailed in Note R Commitments and Guarantees of the Notes to the Consolidated Financial Statements.

MARKET RISK

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments, currencies, commodities and other items traded in global markets. The Company is exposed to market risk from changes in foreign currency exchange rates, interest rates, stock prices, and commodity prices. Exposure to foreign currency risk results because the Company, through its

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global businesses, enters into transactions and makes investments denominated in multiple currencies. The Company's predominant exposures are in European, Canadian and Asian currencies, including the Chinese Renminbi (''RMB'') and the Taiwan Dollar. Certain cross-currency trade flows arising from sales and procurement activities as well as affiliate cross-border activity are consolidated and netted prior to obtaining risk protection, primarily purchased basket options. The Company is thus able to capitalize on its global positioning by taking advantage of naturally offsetting exposures and portfolio efficiencies to reduce the cost of purchasing protection. At times, the Company also enters into forward exchange contracts and purchased options to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables, predominately for affiliate transactions. Gains and losses from these hedging instruments offset the gains or losses on the underlying net exposures, assets and liabilities being hedged. Management determines the nature and extent of currency hedging activities, and in certain cases, may elect to allow certain currency exposures to remain unhedged. The Company has also entered into several cross-currency interest rate swaps, to provide a partial hedge of the net investments in certain subsidiaries and better match the cash flows of operations to debt service requirements. Sensitivity to foreign currency exposure risk from these financial instruments at the end of 2007 would have been immaterial based on the potential loss in fair value from a hypothetical 10% adverse movement in all currencies. The Company follows risk management policies in executing derivative financial instrument transactions, and does not use such instruments for speculative purposes.

The Company sources significant products from China and other Asian low cost countries for resale in other regions. To the extent the RMB or these other currencies appreciate with respect to the USD, the Company may experience cost increases on such purchases. While the 7% appreciation of the RMB during 2007 has not as yet generated material cost increases for products sourced from China, further significant appreciation of the RMB or other currencies in countries where the Company sources product could adversely impact profitability. In the event significant RMB or other currency appreciation occurs, the Company would initiate customer pricing or other actions in an effort to mitigate the related cost increases, but it is possible such actions would not fully offset the potential unfavorable impact.

The Company's exposure to interest rate risk results from its outstanding debt obligations, short-term investments, and derivative financial instruments employed in the management of its debt portfolio. The debt portfolio is managed to achieve capital structure targets and reduce the overall cost of borrowing by using a combination of fixed and floating rate debt as well as interest rate swaps, and cross-currency swaps. The Company's primary exposure to interest rate risk comes from its floating rate debt in the U.S. and Europe and is fairly represented by changes in LIBOR and EURIBOR rates. At December 29, 2007, the result of a hypothetical two percentage point increase in short-term LIBOR and EURIBOR rates would not have resulted in a material impact on the pre-tax profit of the Company.

The Company has exposure to commodity prices in many businesses, particularly brass, nickel, resin, aluminum, copper, zinc, steel, and energy used in the production of finished goods. Generally, commodity price exposures are not hedged with derivative financial instruments, but instead are actively managed through customer pricing actions, procurement-driven cost reduction initiatives and other productivity improvement projects. In 2007, the Company experienced approximately $67 million of commodity, energy and wage inflation, most of which was recovered through favorable pricing actions. Such inflation increased costs by approximately $45 million in 2006 and $49 million in 2005, which management mitigated through various customer pricing actions and cost reduction initiatives. If commodity prices fluctuated to reach new historical high levels, the Company's exposure could increase from the expected levels for 2008 as previously discussed.

Fluctuations in the fair value of the Company's common stock affect domestic retirement plan expense as discussed in the ESOP section of Management's Discussion and Analysis.

The assets held by the Company's defined benefit plans are exposed to fluctuations in the market value of securities, primarily global stocks and fixed-income securities. The funding obligations for these plans would increase in the event of adverse changes in the plan asset values. The Company

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employs diversified asset allocations to help mitigate this risk. Management has worked to minimize this exposure by freezing and terminating defined benefit plans where appropriate.

The Company has significant customers, particularly home centers and major retailers, though individually there are none that exceed 10% of consolidated sales. The loss or material reduction of business from any such significant customer could have a material adverse impact on the Company's results of operations and cash flows, until either such customers were replaced or the Company made the necessary adjustments to compensate for the loss of business.

Approximately 24% of 2007 sales were in the Americas region of the Construction and Do-It-Yourself segment. This portion of the Company has been adversely affected by the decline in U.S. housing and general construction markets. In the event these domestic housing and construction markets deteriorate further, or the down-turn spreads to European or Asian markets, this could have an unfavorable impact on future results. The 2007 European and Asian sales were robust in the CDIY segment. Management believes geographic as well as industrial diversification helps mitigate the risk of variability in future results from issues that may arise from time to time in certain markets the Company serves.

The Company has access to financial resources and borrowing capabilities around the world. There are no material instruments within the debt structure that would accelerate payment requirements due to a change in credit rating. The Company has the flexibility to elect deferral of interest payments on its ETPS obligation for up to 5 years. While there can be no guarantee of the future, the Company has an investment-grade credit rating and has enjoyed uninterrupted access to the commercial paper and bank markets throughout the credit crunch that has recently arisen. Further, the Company has not encountered liquidity difficulties historically when similar credit tightening has occurred due to macro-economic issues. Moreover, the Company's existing credit facilities and sources of liquidity, including operating cash flows, are considered adequate to conduct business as normal. Accordingly, based on present conditions and past history, management believes it is unlikely that operations will be materially affected by any potential deterioration of the general credit markets that may occur. The Company believes that its strong financial position, operating cash flows, committed long-term credit facilities and borrowing capacity, and ready access to equity markets provide the financial flexibility necessary to continue its record of annual dividend payments, to invest in the routine needs of its businesses, to make strategic acquisitions and to fund other initiatives encompassed by its growth strategy.

OTHER MATTERS

EMPLOYEE STOCK OWNERSHIP PLAN   As detailed in Note M Employee Benefit Plans of the Notes to the Consolidated Financial Statements, the Company has an Employee Stock Ownership Plan (''ESOP'') under which the ongoing U.S. defined contribution and 401(K) plans are funded. Overall ESOP expense is affected by the market value of Stanley stock on the monthly dates when shares are released, among other factors. Net ESOP expense amounted to $2 million in each of the years 2007, 2006 and 2005. While the average market value of shares released increased from $46.41 in 2005 to $56.04 in 2007, other elements of ESOP expense, including a gradual reduction in the number of shares released annually from the trust, offset the favorable impact of the higher share price. ESOP expense could increase in the future if the market value of the Company's common stock declines.

NEW ACCOUNTING STANDARDS   Refer to Note A Significant Accounting Policies of the Notes to the Consolidated Financial Statements for a discussion of new accounting pronouncements and the potential impact to the Company's consolidated results of operations and financial position.

CRITICAL ACCOUNTING ESTIMATES   Preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Significant accounting policies used in the preparation of the Consolidated Financial Statements are described in Note A Significant Accounting Policies. Management believes the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters with inherent uncertainty. The most significant areas involving management estimates are described below. Actual results in these areas could differ from management's estimates.

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ALLOWANCE FOR DOUBTFUL ACCOUNTS The Company's estimate for its allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved. First, a specific reserve is established for individual accounts where information indicates the customers may have an inability to meet financial obligations. In these cases, management uses its judgment, based on the surrounding facts and circumstances, to record a specific reserve for those customers against amounts due to reduce the receivable to the amount expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received. Second, a reserve is determined for all customers based on a range of percentages applied to receivables aging categories. These percentages are based on historical collection and write-off experience.

If circumstances change, for example, the occurrence of higher than expected defaults or a significant adverse change in a major customer's ability to meet its financial obligation to the Company, estimates of the recoverability of receivable amounts due could be reduced.

INVENTORIES — LOWER OF COST OR MARKET, SLOW MOVING AND OBSOLETE Inventories in the U.S. are predominantly valued at the lower of LIFO cost or market, while non-U.S. inventories are valued at the lower of FIFO cost or market. The calculation of LIFO reserves, and therefore the net inventory valuation, is affected by inflation and deflation in inventory components. The Company ensures all inventory is valued at the lower of cost or market, and continually reviews the carrying value of discontinued product lines and stock-keeping-units (''SKUs'') to determine that these items are properly valued. The Company also continually evaluates the composition of its inventory and identifies obsolete and/or slow-moving inventories. Inventory items identified as obsolete and/or slow-moving are evaluated to determine if reserves are required. The Company assesses the ability to dispose of these inventories at a price greater than cost. If it is determined that cost is less than market value, cost is used for inventory valuation. If market value is less than cost, the Company writes down the related inventory to that value. If a write down to the current market value is necessary, the market value cannot be greater than the net realizable value, or ceiling (defined as selling price less costs to sell and dispose), and cannot be lower than the net realizable value less a normal profit margin, also called the floor. If the Company is not able to achieve its expectations regarding net realizable value of inventory at its current value, reserves would have to be adjusted accordingly.

PROPERTY, PLANT AND EQUIPMENT The Company generally values Property, Plant and Equipment (''PP&E'') at historical cost less accumulated depreciation. Impairment losses are recorded when indicators of impairment, such as plant closures, are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount. The impairment loss is quantified by comparing the carrying amount of the assets to the weighted average discounted cash flows, which consider various possible outcomes for the disposition of the assets (i.e. sale, leasing, etc.). Primarily as a result of plant rationalization, certain facilities and equipment are not currently used in operations. The Company has previously recorded impairment losses related to unused and under-utilized assets, and such losses may occur in the future.

GOODWILL AND INTANGIBLE ASSETS The Company completed acquisitions in 2007 and 2006 valued at $647 million and $550 million, respectively. The assets and liabilities of acquired businesses are recorded at their fair values at the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. The Company reported $1.5 billion of goodwill and $322 million of indefinite-lived trade names at December 29, 2007.

In accordance with SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment testing. The identification and measurement of goodwill and unamortized intangible asset impairment involves the estimation of fair value. Impairment testing of goodwill also requires the identification and valuation of reporting units. The estimates of fair value of goodwill, indefinite-lived intangible assets and related reporting units are based on the information available at the date of assessment, including management assumptions about future cash flows, discount rates and royalty rates which are utilized to estimate the present value of future cash flows to be generated by the indefinite-lived assets. Future cash flows can be affected by changes in industry or market conditions or the rate and extent to which anticipated synergies or cost savings are realized with acquired entities. While the Company has not recorded goodwill or other intangible asset impairment losses in many years, it is possible impairments may occur in the future in the event expected profitability, cash flows or trade name usage change significantly from current estimates.

ENVIRONMENTAL The Company incurs costs related to environmental issues as a result of various laws and regulations governing current operations as well as the remediation of previously contaminated sites. Future laws and regulations are expected to be increasingly stringent and will likely increase the Company's expenditures related to routine environmental matters.

The Company's policy is to accrue environmental investigatory and remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The liability recorded is based on an evaluation of currently available facts with respect to each individual site and includes such factors as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. As assessments and remediation progress at individual sites, the amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. As of December 29, 2007 the Company had reserves of $30 million for remediation activities associated with Company-owned properties as well as for Superfund sites, for losses that are probable and estimable. The range of environmental remediation costs that is reasonably possible is $23 million to $56 million which is subject to change in the near term. The Company may be liable for environmental remediation of sites it no longer owns. Liabilities have been recorded on those sites in accordance with this policy. While the Company believes the $30 million liability recorded for environmental matters is adequate, it is possible that future developments may require charges for environmental exposures in excess of this reserve.

INCOME TAXES The future tax benefit arising from net deductible temporary differences and tax loss carry-forwards is $146 million at December 29, 2007 and $126 million at December 30, 2006. The Company believes earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of tax loss carry-forwards or the projected operating results indicate that realization is not likely, a valuation allowance is provided. The valuation allowance as of December 29, 2007 amounted to $27 million.

In assessing the need for a valuation allowance, the Company estimates future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carry-forwards. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event the Company were to determine that it would not be able to realize all or a portion of its deferred tax assets in the future, the unrealizable amount would be charged to earnings in the period in which that determination is made. By contrast, if the Company were to determine that it would be able to realize deferred tax assets in the future in excess of the net carrying amounts, it would decrease the recorded valuation allowance through a favorable adjustment to earnings in the period in which that determination is made. The Company periodically assesses its liabilities and contingencies for all tax years still under audit based on the most current available information. When it is deemed probable that an adjustment will be asserted, the Company accrues its best estimate of the tax liability, inclusive of related interest charges. See Note Q Income Taxes of the Notes to the Consolidated Financial Statements for further discussion.

RISK INSURANCE To some extent, the Company self insures for various business exposures. For domestic workers' compensation, automobile and product liability, the Company generally purchases outside insurance coverage only for severe losses (''stop loss'' insurance). The two risk areas involving the most significant accounting estimates are workers' compensation and product liability (liability for alleged injuries associated with the Company's products).

Actuarial valuations performed by an outside risk insurance expert form the basis for workers' compensation and product liability loss reserves recorded. The actuary contemplates the Company's specific loss history, actual claims reported, and industry trends among statistical and other factors to estimate the range of reserves required. Risk insurance reserves are comprised of specific reserves for individual claims and additional amounts expected for development of these claims, as well as for incurred but not yet reported claims. The specific reserves for individual known claims are quantified by third party administrator specialists (insurance companies) for workers' compensation and by in-house legal counsel in consultation with outside attorneys for automobile and product liability. The cash outflows related to risk insurance claims are expected to occur over approximately 8 to 10 years, and the present value of expected future claim payments is reserved. The Company believes the liability recorded for such risk insurance reserves as of December 29, 2007 is adequate, but due to judgments inherent in the reserve estimation process it is possible the ultimate costs will differ from this estimate.

WARRANTY The Company provides product and service warranties which vary across its businesses. The types of warranties offered generally range from one year to limited lifetime, while certain products carry no warranty. Further, the Company sometimes incurs discretionary costs to service its products in connection with product performance issues. Historical warranty and service claim experience forms the basis for warranty obligations recognized. Adjustments are recorded to the warranty liability as new information becomes available. The Company believes the $64 million reserve for expected warranty claims as of December 29, 2007 is adequate, but due to judgments inherent in the reserve estimation process, including forecasting future product reliability levels and costs of repair as well as the estimated age of certain items submitted for claims, the ultimate claim costs may differ from the recorded warranty liability.

OFF-BALANCE SHEET ARRANGEMENTS Off-balance sheet arrangements include the following:

RECEIVABLE SECURITIZATIONS The Company has agreements to sell, on a revolving basis, pools of accounts and notes receivables to a Qualified Special Purpose Entity (''QSPE''), which qualifies to be accounted for as an unconsolidated subsidiary. The entity is designed to facilitate the securitization of certain trade accounts receivable. Assets and related debt off-balance sheet were both $42 million at December 29, 2007, compared to $60 million as of December 30, 2006. The Company is responsible for servicing these accounts while the QSPE bears the risk of non-collection. The net cash flows from sales of eligible receivables to the QSPE in revolving-period securitizations amounted to a cash outflow of $18 million in 2007 and a cash inflow of $44 million in 2006. There were no gains or losses on these cash flows.

SYNTHETIC LEASES The Company is a party to synthetic leasing programs for two of its major distribution centers and certain personal property, predominately vehicles and equipment. The programs qualify as operating leases for accounting purposes, such that only the monthly rent expense is recorded in the Statement of Operations and the liability and value of the underlying assets are off-balance sheet. These lease programs are utilized primarily to reduce overall cost and to retain flexibility. As of December 29, 2007, the estimated fair value of assets and remaining obligations for these properties were $105 million and $83 million, respectively.

TRUST The Company owns 100% of the common stock ($0.1 million) of The Stanley Works Capital Trust I (''the Trust'') which was formed in 2005 to initiate the offering of the $450 million Enhanced Trust Preferred Securities (''ETPS''). However, in accordance with Financial Accounting Standards Board Interpretation No. 46R, ''Consolidation of Variable Interest Entities, an interpretation of ARB No. 51'' (''FIN 46R''), the Trust is not consolidated. Since the $450 million of junior subordinated debt issued by the Company to the Trust is reflected on the Company's Consolidated Balance Sheet as of December 29, 2007, consolidation of the Trust would have virtually no impact to the Company's results of operations or financial position.

CAUTIONARY STATEMENTS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained in this Annual Report on Form 10-K, including, but not limited to, the statements regarding the Company's ability to: (i) limit cost increases due to material, energy cost and wage inflation to $75-80 million; (ii) return the fastening systems business to acceptable profitability;

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(iii) increase sales and profit in the legacy US security integration business; (iv) attain gains in commercial construction markets within the security segment; (v) limit future capital expenditures such that any increase is proportional to the Company's sales growth; (vi) continue to make acquisitions; (vii) increase its current long-term credit facility line to $800 million; and (viii) achieve higher working capital turns, decreased cycle times, reduced complexity in operations and increased customer satisfaction in 2008 and beyond are forward-looking statements and are based on current expectations. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. There are a number of risks, uncertainties and important factors that could cause actual results to differ materially from those indicated by such forward-looking statements. In addition to any such risks, uncertainties and other factors discussed elsewhere herein, the risks, uncertainties and other factors that could cause or contribute to actual results differing materially from those expressed or implied in the forward looking statements include, without limitation, those set forth under Item 1A Risk Factors hereto, those contained in the Company's other filings with the Securities and Exchange Commission and those set forth below.

The Company's ability to deliver the results described above (the ''Results'') is dependent upon: (i) the Company's ability to identify appropriate acquisition opportunities and to complete such acquisitions; (ii) the Company's ability to successfully integrate HSM and other recent acquisitions, as well as future acquisitions, while limiting associated costs; (iii) the Company's ability to continue to deliver cost reductions and profit improvement in its fastening systems and National hardware businesses; (iv) the Company's ability to complete the fastening reorganization within the anticipated time frame; (v) the success of the Company's efforts to manage freight costs, steel and other commodity costs; (vi) the success of the Company's efforts to sustain or increase prices in order to, among other things, offset or mitigate the impact of steel, freight, energy, non-ferrous commodity and other commodity costs and other inflation increases; (vii) the Company's ability to reduce its costs, increase its prices, change the manufacturing location or find alternate sources for products made in China in order to mitigate the impact of an increase in the VAT rate applicable to products the Company makes or purchases in China and mitigate the impact of an anti-dumping tariff recently imposed on certain nails imported from China; (viii) the Company's ability to generate free cash flow and maintain a strong debt to capital ratio; (ix) the Company's ability to identify and effectively execute productivity improvements and cost reductions while minimizing any associated restructuring charges; (x) the Company's ability to obtain favorable settlement of routine tax audits; (xi) the ability of the Company to generate earnings sufficient to realize future income tax benefits during periods when temporary differences become deductible; (xii) the continued ability of the Company to access credit markets under satisfactory terms; and (xiii) the Company's ability to negotiate satisfactory payment terms under which the Company buys and sells goods, materials and products.

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

The Company's ability to achieve the Results will also be affected by external factors. These external factors include: pricing pressure and other changes within competitive markets; the continued consolidation of customers particularly in consumer channels; inventory management pressures on the Company's customers; increasing competition; changes in trade, monetary, tax and fiscal policies and laws; inflation; currency exchange fluctuations; the impact of dollar/foreign currency exchange and interest rates on the competitiveness of products and the Company's debt program; the strength of the U.S. economy; the extent to which North American markets associated with homebuilding and remodeling continue to deteriorate; further tightening of credit markets, and the impact of events that cause or may cause disruption in the Company's manufacturing, distribution and sales networks such as war, terrorist activities, political unrest, government actions and recessionary or expansive trends in the economies of the world in which the Company operates.

Unless required by applicable federal securities laws, the Company undertakes no obligation to publicly update or revise any forward looking statements to reflect events or circumstances that may

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arise after the date hereof. Investors are advised, however, to consult any further disclosures made on related subjects in the Company's reports filed with the Securities and Exchange Commission.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company incorporates by reference the material captioned ''Market Risk'' in Item 7 and the material in Note J Financial Instruments of the Notes to Consolidated Financial Statements in Item 8.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 15 for an index to Financial Statements and Financial Statement Schedules. Such Financial Statements and Financial Statement Schedules are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The management of The Stanley Works is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of The Stanley Works' internal control over financial reporting as of December 29, 2007. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (''COSO'') of the Treadway Commission in Internal Control — Integrated Framework. Management concluded that based on its assessment, The Stanley Works' internal control over financial reporting was effective as of December 29, 2007. Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of HSM Electronic Protection Services Inc. (''HSM'') which was acquired on January 16, 2007. HSM is included in the 2007 consolidated financial statements of The Stanley Works and constituted total assets of approximately $571 million at December 29, 2007 and approximately $219 million of revenues for the year then ended. Ernst & Young LLP, the auditor of the financial statements included in this annual report, has issued an attestation report on the registrant's internal control over financial reporting, a copy of which appears on page 45.

There has been no change in The Stanley Works' internal control over financial reporting during the fiscal quarter ended December 29, 2007 that has materially affected, or is reasonably likely to materially affect, The Stanley Works' internal control over financial reporting.

Under the supervision and with the participation of management, including the Company's Chairman and Chief Executive Officer and its Executive Vice President and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934. Based upon that evaluation, as of the end of the period covered by this Annual Report, the Company's Chairman and Chief Executive Officer and its Executive Vice President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in its periodic Securities and Exchange Commission filings. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item, except for certain information with respect to the Company's Code of Ethics, the executive officers of the Company and any material changes to the procedures by which security holders may recommend nominees to the Company's board of directors, as set forth below, is incorporated herein by reference to the information set forth in the section of the Company's definitive proxy statement (which will be filed pursuant to Regulation 14A under the Exchange Act within 120 days after the close of the Company's fiscal year) under the headings ''Information Concerning Nominees for Election as Directors,'' ''Information Concerning Directors Continuing in Office,'' ''Board of Directors,'' and ''Section 16(a) — Beneficial Ownership Reporting Compliance.''

In addition to Business Conduct Guidelines that apply to all directors and employees of the Company, the Company has adopted a Code of Ethics that applies to the Company's chief executive officer and all senior financial officers, including the chief financial officer and principal accounting officer. A copy of the Company's Code of Ethics is available on the Company's website at www.stanleyworks.com.

On July 20, 2007, the board of directors amended the Company's bylaws to, among other things, increase the time period for delivery of advance notice of stockholder proposals and nominations to not less than 90 days nor more than 120 days prior to the anniversary of the date on which the proxy statement was first mailed for the preceding year's annual meeting.

The following is a list of the executive officers of the Company as of February 22, 2008:

Name,
Age, Date of Birth Office Date Elected to Office John F. Lundgren (56)
(09/03/51) Chairman and Chief Executive Officer. President, European Consumer Products, Georgia-Pacific Corporation (2000). 03/01/04 Donald Allan, Jr. (43)
(3/21/64) Vice President & Corporate Controller. Corporate Controller (2000); Assistant Controller (1999). 10/24/06 Jeffery D. Ansell (40)
(01/05/68) Vice President & President, Stanley Consumer Tools Group. President – Consumer Tools and Storage (2004); President of Industrial Tools & Storage (2002); Vice President – Global Consumer Tools Marketing (2001); Vice President Consumer Sales America (1999). 02/22/06 Bruce H. Beatt (55)
(07/24/52) Vice President, General Counsel and Secretary since October 2000. 10/09/00 Justin C. Boswell (40)
(12/03/67) Vice President & President, Mechanical Access Systems since January 2007. President, Stanley Securities Solutions (2003). President Stanley Access Technologies (2000). 07/26/05 Jeff Chen (49)
(8/22/58) Vice President & President, Asia; Director, Asia Operations (2002); Managing Director, Thailand (1999). 04/27/05 Hubert Davis, Jr. (59)
(08/28/48) Senior Vice President, Business Transformation since 2006. Vice President, Chief Information Officer (June 2000). Chief Information Officer and e-commerce Leader (2000). 05/25/04 James M. Loree (49)
(06/14/58) Executive Vice President and Chief Financial Officer since September 2002. Vice President Finance and Chief Financial Officer (1999). 07/19/99 Mark J. Mathieu (56)
(02/20/52) Vice President, Human Resources since September 1997. 09/17/97 Donald R. McIlnay (57)
(06/11/50) Senior Vice President & President, Industrial Tools Group and Emerging Markets since February 2006. President, Tools Group (2004); President, Doors business (2003). President, Consumer Sales Americas (1999). 10/04/99 Thierry Paternot (59)
(03/03/48) President, Stanley Tools – Europe. Chief Executive Officer Facom S.A. and Directeur General Delegue Fimilac Investissements S.A (2002); Chairman of Management Board Reetsma Gmbh (1998) 01/01/06

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the information set forth under the section entitled ‘‘Executive Compensation’’ of the Company’s definitive proxy statement, which will be filed pursuant to Regulation 14A under the Exchange Act within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by Items 201(d) and 403 of Regulation S-K, except for the equity compensation plan information that follows, is incorporated herein by reference to the information set forth under the sections entitled ‘‘Security Ownership of Certain Beneficial Owners’’, ‘‘Security Ownership of Directors and Officers’’, and ‘‘Executive Compensation’’ of the Company’s definitive proxy statement, which will be filed pursuant to Regulation 14A under the Exchange Act within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

EQUITY COMPENSATION PLAN INFORMATION

Compensation plans under which the Company’s equity securities are authorized for issuance at December 29, 2007 follow:

	(A)	(B)	(C)
Plan category	Number of securities to be issued upon exercise of outstanding options and stock awards	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
Equity compensation plans approved by security holders	7,933,141 (1)	$ 37.83 (2)	7,173,188
Equity compensation plans not approved by security holders	(3)	(3)	(3)
Total	7,933,141	$ 37.83	7,173,188

(1) Consists of shares underlying outstanding stock options (whether vested or unvested), shares underlying time-vesting restricted stock units that have not yet vested, and the maximum number of shares that will be issued pursuant to outstanding long term performance awards if all established goals are met. All stock-based compensation plans are discussed in Note K Capital Stock of the Notes to the Consolidated Financial Statements in Item 8. (2) There is no cost to the recipient for shares issued pursuant to time-vesting restricted stock units or long term performance awards. Because there is no strike price applicable to these stock awards they are excluded from the weighted-average exercise price which pertains solely to outstanding stock options. (3) There is a non-qualified deferred tax savings plan for highly compensated salaried employees which mirrors the qualified plan provisions, but was not specifically approved by security holders. U.S. employees are eligible to contribute from 1% to 15% of their salary to a tax deferred savings plan as described in the Employee Stock Ownership Plan (‘‘ESOP’’) section of Item 8 Note M Employee Benefit Plans to the Consolidated Financial Statements of this Form 10-K. The Company contributes an amount equal to one-half of the employee contribution up to the first 7% of their salary. The investment of the employee’s contribution and the Company’s contribution is controlled by the employee participating in the plan and may include an election to invest in Company stock. The same matching arrangement is provided for highly compensated salaried employees in the ‘‘non-qualified’’ plan, except that the arrangement for these employees is outside of the ESOP, and is not funded in advance of distributions. Shares of the Company’s common stock may be issued at the time of a distribution from the plan. The number of securities remaining available for issuance under the plan at December 29, 2007 is not determinable, since the plan does not authorize a maximum number of securities.

ITEM 13.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K is incorporated by reference to the information set forth under the section entitled ‘‘Board of Directors — Related Party Transactions’’ of the Company’s definitive proxy statement, which will be filed pursuant to Regulation 14A under the Exchange Act within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is incorporated herein by reference to the information set forth under the section entitled ‘‘Fees of Independent Auditors’’ of the Company’s definitive proxy statement, which will be filed pursuant to Regulation 14A under the Exchange Act within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

ITEM 15.
EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Index to documents filed as part of this report:

1. and 2. Financial Statements and Financial Statement Schedules.

The response to this portion of Item 15 is submitted as a separate section of this report beginning with an index thereto on page 41.

3. Exhibits

See Exhibit Index in this Form 10-K on page 86.

(b) See Exhibit Index in this Form 10-K on page 86.

(c) The response in this portion of Item 15 is submitted as a separate section of this Form 10-K with an index thereto beginning on page 41.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE STANLEY WORKS

By: /s/

John F. Lundgren
John F. Lundgren, Chairman
and Chief Executive Officer

Date: February 25, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John F. Lundgren John F. Lundgren	Chairman and Chief Executive Officer and Director	February 25, 2008
/s/ James M. Loree James M. Loree	Executive Vice President and Chief Financial Officer	February 25, 2008
/s/ Donald Allan, Jr. Donald Allan, Jr.	Vice President, Corporate Controller	February 25, 2008
* John G. Breen	Director	February 25, 2008
* Stillman B. Brown	Director	February 25, 2008
* Carlos M. Cardoso	Director	February 25, 2008
* Virgis W. Colbert	Director	February 25, 2008
* Robert B. Coutts	Director	February 25, 2008
* Emmanuel A. Kampouris	Director	February 25, 2008
* Eileen S. Kraus	Director	February 25, 2008
* Kathryn D. Wriston	Director	February 25, 2008
* Lawrence A. Zimmerman	Director	February 25, 2008

*By: /s/ Bruce H. Beatt
Bruce H. Beatt
(As Attorney-in-Fact)

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FORM 10-K
ITEM 15(a) (1) AND (2)
THE STANLEY WORKS AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

Schedule II — Valuation and Qualifying Accounts of The Stanley Works and subsidiaries is included in Item 15 (page 42).

Management's Report on Internal Control Over Financial Reporting (page 43).

Report of Independent Registered Public Accounting Firm — Financial Statement Opinion (page 44).

Report of Independent Registered Public Accounting Firm — Internal Control (page 45).

Consolidated Statements of Operations — fiscal years ended December 29, 2007, December 30, 2006, and December 31, 2005 (page 46).