UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended **January 3, 2004**

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 Pacific Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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 ☒ 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 an accelerated filer (as defined in rule 12-b of the Act). Yes ☒ No ☐

As of March 12, 2004, the aggregate market values of voting common equity held by non-affiliates of the registrant was $3,030,055,771 based on the New York Stock Exchange closing price for such shares on that date. On March 12, 2004, the registrant had 81,431,222 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.

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 worldwide producer of tools and door products for professional, industrial and consumer use. Stanley® is a brand recognized around the world for quality and value.

In 2003, Stanley had net sales of $2.7 billion from continuing operations and employed approximately 13,500 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, Asset Impairments and Other Special Charges 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 Segment and Geographic Area of the Notes to the Consolidated Financial Statements in Item 8.

1(c) NARRATIVE DESCRIPTION OF BUSINESS

The Company's operations are classified into two business segments: Tools and Doors.

Tools

The Tools segment manufactures and markets carpenters, mechanics, pneumatic and hydraulic tools as well as tool sets. These products are sold to customers and distributed directly to retailers (including home centers, mass merchants, hardware stores, and retail lumber yards) as well as through third party distributors.

Carpenters tools include hand tools such as measuring instruments, planes, hammers, knives and blades, screwdrivers, saws, chisels, boring tools, masonry, tile and drywall tools, as well as electronic stud sensors, levels, alignment tools and elevation measuring systems. The Company markets its carpenters tools under the Stanley®, FatMax®, MaxGrip™, Powerlock®, IntelliTools™, Dynagrip®, and Goldblatt® brands.

Mechanics tools include consumer, industrial and professional mechanics hand tools, including wrenches, sockets, electronic diagnostic tools, tool boxes and high-density industrial storage and retrieval systems. Mechanics tools are marketed under the Stanley®, Proto®, Mac®, Husky®, Jensen®, Vidmar®, ZAG® and Blackhawk™ by Proto ® brands.

Pneumatic tools include Bostitch® fastening tools and fasteners (nails and staples) used for construction, remodeling, furniture making, pallet manufacturing and consumer use and pneumatic air tools marketed under the Stanley® brand (these are high performance, precision assembly tools, controllers and systems for tightening threaded fasteners used chiefly by vehicle manufacturers).

Hydraulic tools include Stanley® hand-held hydraulic tools used by contractors, utilities, railroads and public works as well as LaBounty® mounted demolition hammers and compactors designed to work on skid steer loaders, mini-excavators, backhoes and large excavators.

Doors

The Doors segment manufactures and markets automatic doors, as well as closet doors and systems, home decor, door locking systems, commercial and consumer hardware, security access control systems and patient monitoring devices. Products in the Doors segment include mirrored closet doors and closet organizing systems, automatic doors as well as related door hardware products ranging from hinges, hasps, bolts and latches to shelf brackets and lock sets. Door products are marketed under the Stanley®, Magic-Door® Stanley-Acmetrack, Monarch, Acme®, WanderGuard® , StanVision and BEST® brands and are sold directly to end users and retailers as well as 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 and 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 business, 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 within a particular line. The Company believes that it is one of the largest manufacturers of hand tools in the world featuring a broader line than any other toolmaker. The Company also believes that it is a leader in the manufacture and sale of pneumatic fastening tools and related fasteners to the construction, furniture and pallet industries as well as a leading manufacturer of hand-held hydraulic tools used for heavy construction, railroads, utilities and public works. In the Doors segment, the Company believes that it is a U.S. leader in commercial hardware products, mirrored closet doors and hardware for sliding, folding and pocket doors and the U.S. leader in the manufacture, sale and installation of automatic sliding and swing powered doors.

Customers

A substantial portion of the Company's products are sold through home centers and mass merchant distribution channels in the U.S. In 2003, approximately 16% of the Company's consolidated sales from continuing operations in the Tools and Doors segments collectively were to one customer. Because a consolidation of retailers in the home center and mass merchant distribution channel is occurring, these customers constitute a growing percent of the Company's sales and are important to the Company's operating results. 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 this one customer as well as certain of the other larger home centers as customers would have a material adverse effect on each of the Company's business segments 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 a diversified customer base and is seeking to broaden its customer base further in each business segment by identifying and seeking new channels and customers that it does not currently serve.

Raw Materials

The Company's products are manufactured of steel and other metals, wood and plastic. The raw materials required are available from a number of sources at competitive prices and the Company has multi-year contracts with many of its key suppliers. The Company has experienced no difficulties in obtaining supplies in recent periods. Certain commodity prices, particularly steel, are expected to increase in 2004, but the Company does not anticipate difficulties with respect to adequate supplies of raw materials.

Backlog

At March 6, 2004, the Company had approximately $287 million in unfilled orders compared with $168 million in unfilled orders at March 1, 2003. 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

Neither 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 either business segment. The Company owns numerous patents, none of which are 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 is material to the Company's operations as a whole. These licenses, franchises and concessions vary in duration 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 both 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 both segments. In the Tools segment, the Bostitch®, Powerlock®, Tape Rule Case Design (Powerlock), FatMax®, LaBounty®, MAC®, Proto®, Jensen®, Goldblatt®, Husky®, Vidmar® and Zag® trademarks are also material to the business. In the Doors segment, the BEST® trademark is material to the business. The terms of these trademarks vary from one 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.

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 ten 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: the solvency of the other PRP's, whether responsibility is being disputed, the terms of existing agreements, experience at similar sites, and the fact that its volumetric contribution, if any, at these sites is relatively small.

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 January 3, 2004, the Company had reserves of approximately $11.5 million, primarily 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 January 3, 2004, the Company had approximately 13,500 employees, nearly 6,200 of whom were employed in the U.S. Approximately 1,100 U.S. employees are covered by collective bargaining agreements negotiated with 14 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 2004, 2005, 2006 and 2007. With the exception of an eleven day strike in New Britain and Farmington, Connecticut, 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 Segment and Geographic Area 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 the U.S. Securities and Exchange Commission.

ITEM 2. PROPERTIES

As of January 3, 2004, 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 13 foreign countries. The Company believes that its material facilities are suitable and adequate for its business.

Material facilities owned by the Company and its subsidiaries follow:

Tools

Phoenix, Arizona; Visalia, California; Clinton and New Britain, Connecticut; Shelbyville, Indiana; Two Harbors, Minnesota; Hamlet, North Carolina; Columbus, Georgetown and Sabina, Ohio; Allentown, Pennsylvania; East Greenwich, Rhode Island; Cheraw, South Carolina; Dallas and Wichita Falls, Texas; Pittsfield, Vermont; Smiths Falls, Canada; Guang Dong, Peoples Republic of China; Daxing, Peoples Republic of China Pecky, Czech Republic; Besancon Cedex, France; Wieseth, Germany; Chihuahua and Puebla, Mexico; Wroclaw, Poland; Taichung Hsien, Taiwan; and Amphur Bangpakong, Thailand.

Doors

Chatsworth, California; Farmington and New Britain, Connecticut; Indianapolis, Indiana; Richmond, Virginia; Brampton, Canada; Sheffield, England and Guang Dong, Peoples Republic of China.

Corporate Offices

New Britain, Connecticut

Material facilities leased by the Company and its subsidiaries follow:

Tools

New Britain, Connecticut; Miramar, Florida; Covington, Georgia; Fishers, Indiana; Kannapolis, North Carolina; Highland Heights and Columbus, Ohio; Milwaukie, Oregon; Somerton, Australia; Mechelen, Belgium; Oakville and Smiths Falls, Canada; Hellaby, Sheffield, Ecclesfield, Northampton and Worsley, England; Karmiel, Israel; Figino Serenza, and Biassono, Italy.

Doors

Tupelo, Mississippi; Charlotte, North Carolina; Winchester, Virginia; Garland, Texas, Langley, Canada and Marquette, France .

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

Tools

Visalia, California (owned); Hamlet, North Carolina (owned); Wichita Falls, Texas (owned); Worsley (leased) and Ecclesfield, England (leased).

Doors

Richmond, Virginia (owned) and New Britain, Connecticut (owned).

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is involved in various lawsuits, 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 2003 to a vote of security holders.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is listed and traded on the New York and Pacific Stock Exchanges under the abbreviated ticker symbol "SWK," and is a component of the S&P 500 Composite Stock Price Index. The Company's high and low quarterly stock price on the NYSE for the years ended January 3, 2004 and December 28, 2002 follow:

	2003			2002		
	High	Low	Dividend Per Common Share	High	Low	Dividend Per Common Share
Quarter:						
First	$36.06	$23.97	$0.255	$52.00	$40.23	$ 0.24
Second	$28.59	$21.00	$0.255	$51.10	$39.15	$ 0.24
Third	$30.53	$27.45	$ 0.26	$43.95	$29.90	$0.255
Fourth	$37.87	$29.47	$ 0.26	$36.69	$27.31	$0.255
Total			$ 1.03			$ 0.99

As of January 3, 2004 there were 13,915 holders of record of the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial information should be read in conjunction with the Consolidated Financial Statements and related Notes appearing in Item 15 of this Form 10-K (in millions, except per share amounts):

	2003	2002 **	2001 **	2000 **	1999 **
Continuing Operations:					
Net sales	$ 2,678	$ 2,384	$ 2,394	$ 2,541	$ 2,556
Net earnings	$ 97	$ 170	$ 148	$ 188	$ 150
Basic earnings per share:					
Continuing operations	$ 1.15	$ 1.97	$ 1.72	$ 2.16	$ 1.67
Discontinued operations	$ 0.13	$ 0.17	$ 0.12	$ 0.07	$ 0.00
Total basic earnings per share	$ 1.28	$ 2.14	$ 1.85	$ 2.22	$ 1.67
Diluted earnings per share:					
Continuing operations	$ 1.14	$ 1.93	$ 1.69	$ 2.15	$ 1.67
Discontinued operations	$ 0.13	$ 0.17	$ 0.12	$ 0.07	$ 0.00
Total diluted earnings per share	$ 1.27	$ 2.10	$ 1.81	$ 2.22	$ 1.67
Percent of net sales:					
Cost of sales	66.7%	66.9%	64.0%	63.0%	64.5%
Selling, general and administrative	23.8%	22.1%	23.1%	24.0%	26.4%
Interest, net	1.1%	1.0%	1.1%	1.1%	1.1%
Other, net	1.5%	(0.4)%	(0.4)%	0.8%	(0.1)%
Earnings before income taxes	5.0%	10.4%	9.2%	11.2%	9.0%
Net earnings	3.6%	7.1%	6.2%	7.4%	5.9%
Balance sheet data:					
Total assets	$ 2,424	$ 2,418	$ 2,056	$ 1,885	$ 1,891
Long-term debt	$ 534	$ 563	$ 197	$ 249	$ 290
Shareowners' equity	$ 859	$ 984	$ 832	$ 737	$ 735
Ratios:					
Current ratio	1.6	1.8	1.4	1.6	1.7
Total debt to total capital	44.6%	42.0%	37.3%	38.6%	37.8%
Income tax rate	27.3%	31.6%	32.8%	33.8%	35.0%
Return on average equity	10.5%	18.8%	18.9%	25.5%	21.3%
Common stock data:					
Dividends per share	$ 1.03	$ 0.99	$ 0.94	$ 0.90	$ 0.87
Equity per share at year-end	$ 10.56	$ 11.33	$ 9.83	$ 8.65	$ 8.27
Market price - high	$ 37.87	$ 52.00	$ 46.85	$ 31.88	$ 35.00
Market price - low	$ 21.00	$ 27.31	$ 28.06	$ 18.44	$ 22.00
Average shares outstanding (in 000's):					
Basic	84,143	86,453	85,761	87,407	89,626
Diluted	84,839	88,246	87,467	87,668	89,887
Other information:					
Average number of employees	13,316	13,117	14,061	15,815	16,378
Shareowners of record at end of year	13,915	14,053	15,290	16,014	16,947

** Certain amounts have been restated from earlier published amounts to reflect reclassification of the residential entry door business as a discontinued operation, as discussed in item 15, Footnote U Discontinued Operations of this Form 10-K.

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

BUSINESS OVERVIEW

The Company is a worldwide producer of tools and door products for professional, industrial, and consumer use. The Tools segment manufactures and markets carpenters, mechanics, pneumatic and hydraulic tools as well as tool sets and tool storage units. The Doors segment manufactures and markets automatic doors, as well as closet doors and systems, home décor, door locking systems, commercial and consumer hardware, security access control systems and patient monitoring devices.

The Company has embarked on a growth strategy which will likely alter its portfolio of businesses in the future. This growth strategy encompasses acquisitions and the reduction of risk associated with certain large customer concentrations. The Company believes this strategy will improve the overall profitability of operations. In 2003, acquisitions, primarily Best Access which was completed in November 2002, had a significant favorable impact on the Company. Additionally, the Company entered into a definitive agreement during December 2003 to sell its residential entry door business, and, therefore, this business has been reported as a discontinued operation for all periods. The entry door business contributed $0.13, $0.17, and $0.12 of diluted earnings per share in 2003, 2002, and 2001, respectively. As discussed in Note V Subsequent Events of the Notes to the Consolidated Financial Statements in Item 15 of the Form 10-K, in the first quarter of 2004 the sale of the entry door business, the acquisition of Chicago Steel Tape Co., and tender offers for Blick plc and Frisco Bay Industries Ltd. were completed. The three acquisitions are expected to offset the financial impact associated with the sale of the entry door business.

The Company announced restructuring plans ("Operation 15") in April 2003 to improve the profitability of certain businesses. The restructuring was completed in 2003 and included a workforce reduction of over 1,000 people, the exit from the Mac Tools retail channel ("MacDirect"), and the impairment of certain fixed assets and inventories related primarily to the future consolidation of two distribution facilities. In the second quarter of 2003, the Company recognized $8 million in charges related to compensation payable to the former Chairman and Chief Executive Officer, John M. Trani, pertaining to his retirement effective December 31, 2003. These retirement costs were comprised of severance and pension as specified in an employment contract entered into in 2000.

During 2003, the strengthening of the euro and other foreign currencies had a significant favorable impact on the translation of foreign currency-denominated operating results into U.S. dollars. It is estimated that the favorable impact of foreign currency translation contributed $0.13 of diluted earnings per share in 2003.

RESULTS OF OPERATIONS

Net sales from continuing operations were $2,678 million for 2003, as compared to $2,384 million in 2002, a 12% increase. Acquisitions contributed $266 million, or an 11% increase of net sales. Organic sales volume declined primarily due to the termination of the MacDirect program combined with industrial and consumer channel customers inventory corrections in the first half of 2003. These declines were partially offset by strong fourth quarter 2003 demand in the U.S. Hand Tools and Mechanics Tools businesses, and expanding service operations and share gains at national accounts in the Access Technologies business. Overall, organic sales volume declined 2%, offset by favorable foreign currency translation of 3% due primarily to the European currencies.

Net sales from continuing operations were $2,384 million for 2002 which were relatively flat as compared to $2,394 million in 2001. Sales in 2002 increased 2% from acquisitions, and 1% from the translation of foreign currencies, which strengthened against the U.S. dollar. Organic sales declined 3% principally due to the negative impact of the Mechanics Tools plant consolidation, continued overall price erosion, and ongoing weakness in industrial markets.

During 2003, the Company recorded $109 million of pre-tax restructuring costs, impairment charges, and other exit costs in connection with Operation 15. Certain expenses totaling $8 million related to

the retirement of the Company's former Chairman and CEO were recorded in addition to Operation 15 related charges. A summary of the pre-tax charges recorded in 2003 related to these matters is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	(Millions of Dollars)				
Operation 15					
Mac Direct exit					
Inventory losses	$ 4	$ 3	$—	$—	$ 7
Receivable losses	10	11	—	4	25
Other Mac	—	14	6	1	21
Distribution Facilities	—	—	—	13	13
Other	—	12	11	20	43
Total Operation 15	$14	$40	$17	$38	$109
Other severance	3	—	—	—	3
CEO retirement	—	8	—	—	8
Total	$17	$48	$17	$38	$120

These charges were classified within the 2003 Consolidated Statement of Operations as follows: (i) Cost of sales — $20 million; (ii) SG&A and Provision for doubtful accounts — $37 million; (iii) Other-net — $10 million; and (iv) Restructuring and asset impairment charges — $53 million.

During 2002, the Company reported a second quarter U.S. pension settlement pre-tax gain of $18 million. Also in the second quarter, the Company incurred $8 million in severance and related expenses associated with selling, general and administrative cost reductions. In the third quarter, the Company reported a $6 million income tax credit related to a favorable foreign tax development. In the fourth quarter, the Company recorded $22 million in non-cash charges for increased inventory and receivable loss provisions and for specific manufacturing equipment impairments related to the following: (1) a reassessment of Mac Tools inventory and accounts receivable valuations, as a result of a new retail control system; (2) an inventory valuation adjustment in Fastening Systems associated with cost estimation process improvements; and (3) impairment of certain fixed assets related primarily to the Wichita Falls and Dallas, Texas plants consolidation. Also in the fourth quarter the Company recorded $5.6 million of accounting corrections. These corrections relate primarily to expense capitalization and depreciation. Other significant credits in 2002 include $11 million in environmental income arising from a settlement with an insurance carrier recognized in the third and fourth quarters. These credits and charges were classified within the 2002 Consolidated Statement of Operations as follows: (i) Net sales — $1 million charge; (ii) Cost of sales — $17 million charge; (iii) SG&A expenses — $10 million charge; (iv) Other-net — $21 million credit; and (v) Income taxes — $6 million credit.

During 2001, the Company recorded charges related to restructuring initiatives totaling $72 million ($18 million incurred in the first quarter and $54 million incurred in the fourth quarter). These costs consisted primarily of severance and asset impairments as the Company continued to rationalize its cost structure and reduce employment. In addition, the Company incurred certain other significant credits and charges during 2001. In the first quarter, the Company recorded a pre-tax $29 million pension curtailment gain pertaining to its U.S. pension plan. Also in the first quarter, the Company recorded $11 million of charges related to several business repositionings. The repositionings were principally in the Tools segment and related to the continuing movement of production, permanent reduction of the overhead cost structure of its manufacturing system, and a series of initiatives at Mac Tools. In the third quarter, the Company recorded a charge of $5 million for severance costs incurred due to lower sales volumes and the continuing weakness in the industrial markets. Also in the third quarter, the Company recorded $3 million in credits for tax benefits. In the fourth quarter, the Company recorded a charge of $6 million for the disposition of inventories associated principally

with discontinued manufacturing plants and stock-keeping-units (SKUs). These credits and charges were classified within the 2001 Consolidated Statement of Operations as follows: (i) Net sales — $1 million charge; (ii) Cost of sales — $12 million charge; (iii) SG&A expenses — $8 million charge; (iv) Other-net — $28 million credit; (v) Restructuring and asset impairments — $72 million charge; and (vi) Income taxes — $3 million credit.

The Company reported gross profit from continuing operations of $893 million, or 33.3% of net sales, in 2003, compared to $790 million, or 33.1% of net sales, in 2002. Excluding the $128 million favorable impact of acquisitions, gross profit declined slightly as compared with 2002 primarily due to reduced organic sales volume mentioned previously, inventory losses related to the exit of MacDirect, the impairment of inventories related to the future consolidation of two distribution facilities, and higher retirement plan costs. These negatives were partially offset by favorable material and other productivity variances. The Company anticipates significant commodity inflation in 2004, particularly for steel materials, which is expected to be offset by other productivity improvements.

In 2002, the Company reported gross profit from continuing operations of $790 million, or 33.1% of net sales compared to $861 million or 36.0% of net sales in 2001. The decline in 2002 gross profit is attributed to the following matters: (i) the costs associated with the consolidation of two Mechanics Tools manufacturing plants, related production inefficiencies and sales declines due to related plant supply chain problems; (ii) consumer business price erosion due to the continued customer mix shift towards home centers and mass merchants; (iii) Fastening Systems price erosion associated with intensified generic nail competition as well as a strategy shift to large distributors and away from smaller customers; (iv) a reduction in Last-In, First-Out (LIFO) related inventory benefit in 2002 versus 2001; (v) increased inventory loss provisions; (vi) and lower retirement plan income. These issues were offset, to some extent, by favorable material and other productivity variances, as well as acquisitions which contributed approximately $22 million to gross profit in 2002. Included in gross profit for 2002 were $13 million of charges related to MacDirect and Fastening Systems inventories. Gross profit in 2001 included $13 million of charges related to business repositioning initiatives within the Tools segment and the disposition of inventories principally from discontinued manufacturing plants and SKUs.

Selling, general and administrative expenses (SG&A) from continuing operations, inclusive of the provision for doubtful accounts, were $638 million, or 23.8% of net sales in 2003, compared to $526 million, or 22.1% of net sales, in the prior year. The increase relates to $70 million of incremental expenses from acquisitions, $25 million of receivable losses associated with the MacDirect exit, $8 million of costs related to the retirement of the Company's CEO, higher retirement plan costs, and the negative impact from foreign currency translation.

SG&A expenses from continuing operations were $526 million or 22.1% of net sales in 2002 compared to $553 million or 23.1% of net sales in 2001. The Company reduced spending in many functions, particularly selling expenses in Mac Tools as a result of lower retail distributor headcount. There was a $12 million decline in the provision for doubtful accounts mainly attributable to a decrease in Mac Tools provisions due to lower sales as compared with 2001 and the mix shift from retail to wholesale sales which involve reduced credit risk. These favorable items more than offset a decrease in retirement plan income in 2002. Included in SG&A for 2002 is $10 million in charges from severance and related expenses ($8 million) and Mac Tools receivable losses ($2 million). SG&A expenses in 2001 included $8 million in charges from business repositioning and additional severance charges apart from the restructuring initiatives.

Net interest expense from continuing operations for 2003 was $28 million, an increase of $4 million from $24 million in 2002. This increase was from higher borrowings primarily for acquisitions, partially offset by lower interest rates. Net interest expense from continuing operations for 2002 was $24 million, down slightly from $26 million in 2001. The decrease was a result of lower interest rates and weighted average debt levels in 2002.

Other-net from continuing operations was $40 million in expense for 2003 compared to $9 million in income for 2002. The increase is primarily the result of an $18 million gain in 2002 from the U.S. pension settlement, $12 million of higher losses in 2003 related to the Company's MacAdvantage

financing program, a $6 million loss on the sale of the Mac Tools distributor receivable portfolio in 2003, increased intangible amortization expense of $10 million in 2003 associated with acquisitions, and $11 million in income from an environmental settlement with an insurance carrier in 2002, which was offset by a $2 million increase in other environmental expense.

Other-net from continuing operations was $9 million in income for 2002 and 2001, however, there were some significant charges and credits that were recorded in each year. The 2002 amount includes an $18 million gain from the U.S. pension settlement, $8 million in fixed asset impairment losses, and $11 million in income from an environmental settlement with an insurance carrier, which was offset by a $2 million increase in other environmental expense. The 2001 amount includes a $29 million U.S. pension plan curtailment gain and a charge of $2 million related to Mac Tools business repositionings. There was no goodwill amortization expense in 2002, due to adoption of Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Intangible Assets", while goodwill amortization was $8 million in 2001.

The Company's effective income tax rate from continuing operations for 2003 was 27% as compared to 32% for 2002 and 33% for 2001. The tax rate decreases reflect the continued benefit of a higher percentage of taxable income in countries with lower statutory rates, primarily in Europe, Israel, and the Far East. The 2003 effective income tax rate was affected further by the tax benefit from the Operation 15 charges which were predominately U.S. based. The 2003 and 2002 income taxes reflect favorable foreign tax developments that reduced income taxes by $2 million and $6 million, respectively. The 2002 favorable development was offset by the impact of non-deductible excise tax associated with the termination of the defined benefit pension plan. In addition, the Company recorded a non-recurring tax benefit in 2001 amounting to $3 million.

Business Segment Results

The Company utilizes operating profit, which is defined as Net sales minus Cost of sales and SG&A, inclusive of the Provision for doubtful accounts, and its percentage of Net sales as measurements to evaluate the profitability of each segment.

Tools

	2003	2002	2001
	(Millions of Dollars)		
Net sales	$1,975	$1,955	$2,008
Operating profit	$ 163	$ 209	$ 267
% of Net sales	8.3%	10.7%	13.3%

Tools sales in 2003 increased 1% as compared to 2002. The sales volume increased slightly as a result of strong fourth quarter 2003 demand in the U.S. Hand Tools and Mechanics Tools businesses and favorable foreign currency translation due primarily to the European currencies, offset partially by declining sales from the termination of the MacDirect program, and industrial and consumer channel customers inventory corrections in the first half of 2003. Tools operating profit was impacted by the charges previously mentioned totaling $55 million in 2003 and $28 million in 2002. The remaining $19 million decrease in operating profit is primarily due to higher retirement plan costs, shift in business mix, and additional price erosion in 2003.

Tools sales declined 2.7% in 2002 as compared to 2001. The sales decrease was mainly the result of price erosion and unfavorable channel mix in several businesses, and the Mechanics Tools plant consolidation previously mentioned, offset by $23 million in higher sales from acquisitions. Tools operating profit was impacted by the charges previously mentioned totaling $28 million in 2002 and $15 million in 2001. The remaining $45 million decline in operating profit was primarily attributable to the previously detailed Mechanics Tools domestic plant consolidation and internal product sourcing matters, price concessions in the consumer and Fastening Systems businesses, lower Last-In, First-Out (LIFO) related inventory valuation change in 2002 as compared with 2001, and increased inventory loss provisions. Cost structure improvements including shifting production to low cost countries and SG&A cost reductions were more than offset by the above items.

Doors

	2003	2002	2001
	(Millions of Dollars)		
Net sales from continuing operations	$ 703	$ 429	$ 386
Operating profit from continuing operations	$ 92	$ 55	$ 42
% of Net sales	13.0%	12.8%	10.8%

Doors sales from continuing operations increased by $274 million in 2003, a 64% increase. Acquisitions, primarily Best Access, contributed $255 million, or a 59% increase of net sales. The organic sales volume increased due to expanding service operations and share gains at national accounts in the Access Technologies business. Acquired companies contributed $55 million to operating profit in 2003, offset to some extent by higher retirement plan costs.

Doors sales increased 11.2% in 2002, primarily due to the Best Access and Senior Technologies acquisitions. Increases in Hardware and Access Technologies organic sales were offset by declines in Home Decor. Operating profit was 12.8% of net sales as compared to 10.8% for 2001. Acquired companies contributed $8 million to operating profit in 2002. The remaining increase in operating profit reflects favorable production costs in low cost countries and lower SG&A expenses. The severance charges related to the Doors segment were $1 million in 2002 and $5 million in 2001.

Restructuring Activities

In 2003, the Company recorded $50 million in restructuring and asset impairment charges for the Operation 15 initiative. These charges consisted of $12 million for severance, $27 million of asset impairments and $11 million of other exit costs related to the exit from the Company's MacDirect retail channel. The asset impairments generally relate to assets which are idle mainly as a result of restructuring initiatives and accordingly their book value has been written down to fair value. The Company also recorded $67 million in charges for other exit costs and CEO retirement costs. These charges include $13 million in impaired inventories related to the planned closure of a U.S. distribution facility, $8 million in SG&A for compensation and benefit costs associated with the CEO's retirement, $3 million in other SG&A charges, and $43 million of costs related to the Company's exit from the MacDirect retail channel.

In the first quarter of 2003, the Company recorded $3 million in restructuring reserves for new initiatives, mainly in the Tools segment, pertaining to the further reduction of its cost structure, primarily for severance-related obligations.

In June 2002 and September 2001, $8 million and $5 million in severance charges were recorded, respectively, as the Company continued to rationalize its headcount to provide further SG&A expense reductions. These charges were classified within SG&A expense in the Consolidated Statements of Operations. These actions resulted in the termination of approximately 200 selling and administrative employees in each year. As of December 28, 2002, no accrual remained as all of the severance has been expended.

In 2001, the Company undertook initiatives to reduce its cost structure and executed several business repositionings intended to improve its competitiveness. These actions resulted in the closure of 13 facilities and a net employment reduction of approximately 2,200 production, selling and administrative people. As a result, the Company recorded $72 million of restructuring and asset impairment charges. The charges for asset impairments were primarily related to manufacturing and other assets that were retired and disposed of as a result of manufacturing facility closures.

At January 3, 2004, the restructuring and asset impairment reserve balance was $16 million, which the Company expects to be fully expended by the end of 2004. A summary of the Company's restructuring reserves for the years ended December 28, 2002 to January 3, 2004 is as follows:

	2002	Charges (Millions of Dollars)	Usage	2003
Operation 15				
Severance	$—	$12	$ (9)	$ 3
Asset Impairments	—	27	(18)	9
Other	—	11	(8)	3
Q1 2003				
Severance	—	3	(3)	—
Pre 2003				
Severance	6		(6)	—
Other	3		(2)	1
	$ 9	$53	$(46)	$16

As of January 3, 2004, 86 manufacturing and distribution facilities have been closed as a result of the restructuring initiatives since 1997. In 2003, 2002 and 2001, approximately 1,100, 1,000 and 2,100 employees have been terminated as a result of restructuring initiatives, respectively. Severance payments of $18 million, $26 million and $42 million and other exit payments of $10 million, $4 million and $4 million were made in 2003, 2002 and 2001, respectively. Write-offs of impaired assets were $18 million, $6 million and $8 million in 2003, 2002 and 2001, respectively.

FINANCIAL CONDITION

Liquidity, Sources and Uses of Capital

The Company's primary sources of liquidity are cash flows from operations and borrowings under various credit facilities. The Company has historically generated strong cash flows from operations. In 2003, cash flow from operations was $464 million, as compared to $285 million in 2002. The increase is the result of working capital improvements from receivables of $22 million and inventories of $24 million, cash proceeds of approximately $40 million from the sale of the Mac Tools distributor receivable portfolio, income tax payment deferrals and refunds aggregating $57 million, and $17 million in lower cash payments related to restructuring and other charges in 2003 versus 2002.

In 2002, cash flows from operations were $285 million as compared to $222 million in 2001. In 2002, the Company received a gross pension settlement of $115 million; an ongoing U.S. defined contribution plan was pre-funded with $29 million, and excise and income taxes totaling $48 million were paid, providing a net $38 million cash inflow from the pension settlement. Additionally, the Company renegotiated its payment practices with a major customer enabling acceleration of accounts receivable collections by approximately $30 million. Cash payments related to restructuring and other charges of $42 million in 2002 were comparable to 2001.

Capital expenditures were $52 million in 2002 as compared to $73 million in 2001. The Company incurred higher capital expenditures in 2001 for "The Stanley Learning Center" (a major addition at world headquarters for the training and development of employees), investment in various plants including movement of production to low cost countries, and increased costs for software development and acquisitions as the Company expanded the infrastructure of its systems.

During 2003, the Company made $260 million in payments on borrowings. In the second quarter of 2003, the Company repurchased 3.9 million shares of common stock and agreed to settle the remainder of its equity hedge through the repurchase of 4.1 million shares over the next four years. The 3.9 million share repurchase was made with $100 million of cash and increased commercial paper borrowings while the 4.1 million share repurchase involved $113 million of term debt. These

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repurchases of shares under the equity hedge contract, repayment of debt and currency fluctuation, resulted in a $20 million decrease in the Company's short-term and long-term borrowings.

In 2002, the Company received $338 million in net proceeds from issuance of long-term debt, and disbursed $356 million for business acquisitions. The Company made $154 million in payments on borrowings. These debt proceeds and repayments, in addition to debt issuance costs and currency fluctuations, resulted in a $220 million increase in the Company's short-term and long-term borrowings.

The Company has unused short (364 day) and long-term (multi-year) credit arrangements with several banks to borrow up to $350 million at the lower of prime or money market rates. Of this amount, $100 million is long-term. In addition, the Company has short-term lines of credit with numerous foreign banks aggregating $67 million, of which the entire amount was available at January 3, 2004. Short-term arrangements are reviewed annually for renewal. Of the long-term and short-term lines, $350 million is available to support the Company's commercial paper program. In addition to these lines of credit, the Company maintains a facility designed for the securitization of certain trade accounts receivable for purposes of additional liquidity. As of January 3, 2004, the Company's maximum available funds under this arrangement were $87 million, of which the Company had utilized $54 million.

The Company also has numerous assets, predominantly vehicles and equipment, under a one-year term renewable U.S. master personal property lease. Residual value obligations, which approximate the fair value of the related assets, under this master lease were $35 million at January 3, 2004. The Company does not anticipate any material liabilities associated with these transactions.

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

CONTRACTUAL OBLIGATIONS

	Payments Due by Period				
	Total	< 1 year	2-3 yrs	4-5 yrs	> 5 yrs
	(Millions of Dollars)				

Long-term Debt	$692	$158	$ 64	$245	$225
Operating Leases	82	21	28	19	14
Unconditional Purchase Commitments	14	9	5	—	—
Other Long-Term Obligations	32	5	9	7	11
Service Contract and ESOP Obligations	55	20	30	5	—
Total Contractual Cash Obligations	$875	$213	$136	$276	$250

Included in the table above are $3 million of unconditional purchase commitments for the entry door business that were assumed by the buyer upon the sale of this discontinued operation in March, 2004. Other long-term obligations primarily relate to deferred compensation commitments to executives.

OTHER COMMERCIAL COMMITMENTS

	Amounts of Commitments Expiration Per Period				
	Total	< 1 year	2-3 yrs	4-5 yrs	> 5 yrs
		(Millions of Dollars)			
U.S. Lines of Credit	$350	$250	$100	$—	$—
International Lines of Credit	67	67	—	—	
Total Commercial Commitments	$417	$317	$100	$—	$—

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 in Item 15 of this Form 10-K. Operating leases and other commercial commitments are explained in detail in Note R Commitments of the Notes to the Consolidated Financial Statements in Item 15 of this Form 10-K.

The Company believes that its dividend is an important factor in generating returns for its shareowners. The Company's stated long term policy is to increase dividends by approximately one-half the Company's earnings growth rate, ultimately reaching a dividend payout ratio of 25%. Dividend increases are considered periodically in light of this policy and other considerations. Dividends increased 4.0% in 2003, 5.3% in 2002 and 4.4% in 2001. The Company plans to use a significant portion of free cash flow (operating cash flow less dividends and capital expenditures) to fund future acquisitions in commercial and industrial markets.

Market Risk

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. The Company is exposed to market risk from changes in foreign currency exchange rates and interest rates. Exposure to foreign currency risk results because the Company, through its global businesses, enters into transactions and makes investments denominated in multiple currencies. The Company's predominant exposures are in European, Canadian and Asian currencies. Certain cross-currency trade flows arising from sales and procurement activities are consolidated prior to obtaining risk protection, primarily purchased options. The Company is thus able to capitalize on its global positioning by taking advantage of naturally offsetting exposures 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 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 2003 would have been immaterial based on the potential loss in fair value from a hypothetical 10% adverse movement in all currencies.

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, caps and cross-currency interest rate 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 rates. At January 3, 2004, the result of a hypothetical one percentage point increase in short-term LIBOR rates would not have resulted in a material impact on the pre-tax profit of the Company.

Fluctuations in the fair value of the Company's common stock affect ESOP expense as well as diluted shares outstanding as discussed in the U.S. Pension and ESOP section of Management Discussion and Analysis.

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, and no significantly restrictive covenants. The Company believes that its strong financial position, operating cash flows and borrowing capacity 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

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 accrues for anticipated costs associated with investigatory and remediation efforts in accordance with appropriate accounting guidelines which address probability and the ability to reasonably estimate future costs. The liabilities are reassessed whenever circumstances become better defined or remediation efforts and their costs can be better estimated. Subject to the imprecision in estimating future environmental costs, the Company believes that any sum it may pay in connection with environmental matters in excess of the amounts recorded will not have a materially adverse effect on its financial position, results of operations or liquidity. Refer to Note T Contingencies of the Notes to the Consolidated Financial Statements in Item 15 of this Form 10-K for further information on environmental liabilities and related cash flows.

U.S. Pension and ESOP

In June 2002, the Company recorded an $18 million pre-tax pension settlement gain in other-net. This involved the termination and settlement of the primary U.S. salaried employee plan as well as settlement of most of the liabilities in the ongoing plan for hourly employees. In addition to the settlement gain, the Company recorded $8 million of operating income related to these plans in 2002, whereas in 2003 the ongoing hourly plan resulted in $2 million of expense.

As detailed in Note M Employee Benefit Plans of the Notes to the Consolidated Financial Statements in Item 15 of this Form 10-K, 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. In 2003, the market value of shares released averaged $29.30 per share and the net ESOP expense was $9 million. In 2002, the market value of shares released averaged $39.62 per share and the net ESOP expense was negligible.

The Company provides a 5% guaranteed rate of return on participant contributions made to the tax deferred savings plan (401K) prior to July 1998 when all contributions were invested in Stanley common stock. The value of the shares participants purchased 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, additional costs may be triggered by the IPA benefit guarantee.

New Accounting Standards

Refer to Note A Significant Accounting Policies of the Notes to the Consolidated Financial Statements in Item 15 of this Form 10-K 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 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 of the Notes to the Consolidated Financial Statements in Item 15 of this Form 10-K. 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.

Allowance for Doubtful Accounts

Stanley'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, the Company evaluates specific accounts where information indicates the customers may have an inability to meet financial obligations, such as bankruptcy. In these cases, the Company uses its judgment, based on the best available 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 established 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 material 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

U.S. inventories are generally valued at the lower of LIFO 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 book value of discontinued product lines and SKUs to determine that these items are properly valued. The Company identifies these inventories and assesses the ability to dispose of them at a price greater than cost. If it is determined that cost is less than market value, then cost is used for inventory valuation. If market value is less than cost, then 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 complete and dispose), and cannot be lower than the net realizable value less a normal profit margin, also called the floor. 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. 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.

Goodwill and Intangible Assets

The Company completed acquisitions in 2003 and 2002 valued at $23 million and $359 million, respectively. The assets and liabilities of acquired businesses are recorded under the purchase method 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 had recorded goodwill of $433 million at January 3, 2004.

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 intangibles impairment involves the estimation of the fair value of reporting units. The estimates of fair value of reporting units are based on the best information available at the date of assessment, which primarily incorporate management assumptions about future cash flows. 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 newly acquired entities. While the Company has not recorded intangibles impairment losses in several years, it is possible impairments may occur in the future in the event expected cash flows change significantly. Specifically, the Specialty Tools and Fastening Systems reporting units have been experiencing operating margin declines due to the depressed technology industry and intensified competition, respectively. In recent quarters, however, Fastening Systems operating margins have begun to improve. Specialty Tools and Fastening Systems had $73 million and $38 million, respectively, of recorded goodwill at January 3, 2004. There is potential for future goodwill impairment losses if Specialty Tools and Fastening Systems projected

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profits and cash flows significantly decline from current levels. See Note G Goodwill and Other Intangible Assets of the Notes to the Consolidated Financial Statements in Item 15 of this Form 10-K for further discussion.

Property, Plant and Equipment (PP&E)

The Company generally values 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 recorded impairment losses related to unused assets and additional such losses may potentially occur in the future.

Risk Insurance

To some extent, the Company self insures for various business exposures. For domestic workers' compensation and product liability, the Company generally purchases outside insurance coverage only for catastrophic 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 determine the range of estimated reserve 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 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 claim payments is reserved. The Company believes the liability recorded for such risk insurance reserves as of January 3, 2004 is adequate, but due to judgments inherent in the reserve process it is possible the ultimate costs will differ from this estimate.

Income Taxes

The future tax benefit arising from net deductible temporary differences and tax carryforwards is $84 million at January 3, 2004 and $108 million at December 28, 2002. Management 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 carryforwards or the projected operating results indicate that realization is not likely, a valuation allowance is provided. The valuation allowance as of January 3, 2004 amounted to $21 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 carryforwards. 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 Company would reduce such amounts through a charge to income in the period in which that determination is made. Conversely, if the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of the net carrying amounts, the Company would decrease the recorded valuation allowance through an increase to income in the period in which that determination is made. See Note Q Income Taxes of the Notes to the Consolidated Financial Statements in Item 15 of this Form 10-K for further discussion.

OFF-BALANCE SHEET ARRANGEMENTS

The Company's 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 $54 million at January 3, 2004. The Company is responsible for servicing these accounts while the QSPE bears the risk of non-collection. The proceeds from sales of eligible receivables to the QSPE were $21 million in 2003. There were no gains or losses on these sales.

In 2003 the Company acquired a third party's interest in a Special Purpose Entity (SPE) which supports the Mac Tools extended financing programs. As a result, the entity became non-qualifying and the net assets which consist primarily of notes receivable of $56.4 million at January 3, 2004 have been consolidated in the Company's balance sheet. No gains or losses related to sales to the Company were recorded. During 2003, the Company sold approximately $40 million of receivables of this portfolio to a third party.

Synthetic Leases

The Company is a party to synthetic leasing programs for two of its major distribution centers. The programs qualify as operating leases for accounting purposes, where only the monthly lease amount is recorded in the income statement and the liability and value of underlying assets are off-balance sheet. The reasons for these programs are primarily to reduce overall cost and to retain flexibility. As of January 3, 2004, the estimated fair values of assets and remaining obligations for these two properties were $37 million and $28 million, respectively.

CAUTIONARY STATEMENTS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

Certain statements contained in this Annual Report to shareowners, including the statements regarding the Company's ability (i) to improve the overall profitability of the Company's operations; (ii) to offset the impact associated with the sale of the entry door business through three acquisitions; (iii) to offset anticipated commodity price inflation with other productivity improvements; (iv) to increase revenue; (v) to increase shareholder returns and dividends and (vi) to complete restructuring activities within existing restructuring and asset impairment reserves by the end of the third quarter are forward looking and are based on current expectations and involve inherent risks and uncertainties, including factors listed below and other factors that could delay, divert or change any of them, and could cause actual outcomes and results to differ materially from current expectations.

The Company's ability to achieve the results described above is dependent on (i) the success of the Company's efforts to efficiently and promptly integrate the announced acquisitions and the sales related thereto; (ii) the success of the Company's efforts to restructure its Mac Tools organization in order to return it to profitability, including, without limitation, the Company's ability to liquidate certain Mac Tools assets at a satisfactory price; (iii) the continued ability of the Company to access credit markets under satisfactory terms; (iv) the success of the Company's marketing and sales efforts; (v) continued improvements in productivity and cost reductions; (vi) the continued improvement in the payment terms under which the Company buys and sells goods, materials and products; (vii) the reduction of selling, general and administrative expenses as a percentage of sales; (viii) the success of recruiting programs and other efforts to maintain or expand overall Mac Tools truck count; (ix) the Company's ability to fulfill demand for its products in a timely manner; (x) the absence of increased pricing pressures from customers and competitors and the ability to defend market share in the face of price competition; (xi) the continued ability to effectively manage and defend litigation matters pending or asserted in the future against the Company; (xii) the absence of increasing commodity costs or the ability to reduce other costs to offset such increases and the availability of raw materials.

The Company's ability to achieve the objectives discussed above will also be affected by external factors. These external factors include the continued consolidation of customers in consumer channels,

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inventory management pressures of the Company's customers, 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 and the relative strength or weakness of foreign currencies, including but not limited to the Euro, Canadian dollar, the New Taiwan dollar and the Chinese Renminbi, war, terrorist activities, political unrest 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 arise after the date hereof.

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 of the Notes to Consolidated Financial Statements in Item 15 of this Form 10-K.

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

Within the 90-day period prior to the filing of this report, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chairman and its 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, the Company's Chief Executive Officer and Chairman and its 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 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.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by Items 401 and 405 of Regulation S-K, except for Item 401 with respect to the executive officers as described below, is incorporated herein by reference to the information set forth in 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, www.stanleyworks.com.

Executive Officers

The following is a list of the executive officers of the Company as of March 1, 2004:

Name, Age (as of 1/3/2004) Birth date	Office	Elected to Office
B.H. Beatt (51) (07/24/52)	Vice President, General Counsel and Secretary. Joined Stanley October 2000; Vice President, General Counsel and Secretary, Dexter Corporation (1991).	10/09/00
J.J. DeAngelo (42) (08/02/61)*	Executive Vice President — Tools Group. Joined Stanley March 25, 2003; President and Chief Executive Officer, GE TIP/Modular Space, GE Capital (2002); Chief Operating Officer, GE Appliances (2000); Vice President, E-Business, GE Appliances (1999); General Manager, Six Sigma, GE Appliances (1998).	04/22/03
John F. Lundgren (52) (09/03/51)	Chairman and Chief Executive Officer, March 1, 2004. Joined Stanley March 1, 2004. President, European Consumer Products, Georgia-Pacific Corporation (2000); President, European Consumer Products, Fort James Corporation (1997).	03/01/04
J.H. Garlock Jr. (49) (06/05/54)	Vice President, The Stanley Works, and President, Stanley Fastening Systems, October 2002. Joined Stanley September 2000 as President, Stanley Doors; President, Porter Cable Corporation (1997).	10/28/02
W.D. Hill (54) (09/18/49)	Vice President, Engineering and Technology — Tools Group. Joined Stanley 1997 as Vice President, Engineering.	09/17/97
P.M. Isabella (48) (10/14/55)	Vice President — Tools Group Operations and Global Sourcing. Joined Stanley May 1999 as Vice President, Operations; Vice President Operations, GE Industrial Systems (January 1998);.	10/18/01

Name, Age (as of 1/3/2004) Birth date	Office	Elected to Office
J.M. Loree (45) (06/14/58)	Executive Vice President, September 2002, and Chief Financial Officer. Joined Stanley July 1999; Vice President, Finance & Strategic Planning, GE Capital Auto Financial Services (1997).	07/19/99
M.J. Mathieu (51) (02/20/52)	Vice President, Human Resources. Joined Stanley September 1997.	09/17/97
D.R. McIlnay (53) ** (06/11/50)	President, Doors, April 2003. Joined Stanley October 1999 as President, Consumer Sales Americas; President & Chief Executive Officer, The Gibson-Homans Company (1997).	10/04/99

* On February 9, 2004, Mr. DeAngelo announced his resignation from the Company. The Company expects he will conclude his employment on April 2, 2004

** On February 9, 2004, Mr. McIlnay was named President — Tools Group, effective April 2, 2004.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K 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 close of the Company's fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 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" 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 close of the Company's fiscal year.

EQUITY COMPENSATION PLAN INFORMATION

Compensation plans under which the Company's equity securities are authorized for issuance at January 3, 2004 follow:

	(A)	(B)	(C)
Plan category	**Number of securities to be issued upon exercise of outstanding options and restricted stock shares**	**Weighted-average exercise price of outstanding options and restricted stock shares**	**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	10,995,285	$ 30.14	21,266,671
Equity compensation plans not approved by security holders	(a)	(a)	(a)
Total	10,995,285	$ 30.14	21,266,671

(a) 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 15 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, all of which is invested in Stanley common stock for qualified employees. 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 January 3, 2004 is not determinable, since the plan does not authorize a maximum number of securities.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

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 the Regulation 14A under the Exchange Act within 120 days after the close of the Company's fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(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 25.

3. Exhibits

See Exhibit Index in this Form 10-K on page 63.

(b) The following reports on Form 8-K were filed during the last quarter of the period covered by this report:

Date of Report	**Items Reported**
January 2, 2004	Press Release dated January 2, 2004 announcing the election of John D. Opie to serve as Interim Chairman.
December 18, 2003	Press Release dated December 18, 2003, issued by The Stanley Works, announcing a recommended offer to acquire 100% of the outstanding share capital of Blick plc.
December 12, 2003	Press Release dated December 12, 2003 announcing an agreement to acquire Chicago Steel Tape Co. and certain related assets and affiliated companies.
December 8, 2003	Press Releases dated December 8, 2003 (i) announcing an agreement to sell the Company's residential entry door business, and (ii) providing information regarding fourth quarter revenue growth and updated 2003 earnings guidance.
November 25, 2003	Temporary suspension of trading under the Company's employee benefit plans and Notice to Directors and Executive Officers regarding blackout period.
October 22, 2003	Press Release dated October 22, 2003 announcing third quarter 2003 results and providing fourth quarter and full year 2003 guidance.

(c) See Exhibit Index in this Form 10-K on page 63.

(d) 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 25.

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

March 16, 2004

/s/ John F. Lundgren	/s/ James M. Loree
John F. Lundgren, Chairman and Chief Executive Officer	James M. Loree, Executive Vice President and Chief Financial Officer
/s/ Donald Allan Jr.	*
Donald Allan Jr., Vice President, and Corporate Controller	John G. Breen, Director
*	*
Robert G. Britz, Director	Stillman B. Brown, Director
*	*
Virgis W. Colbert, Director	Emmanuel A. Kampouris, Director
*	*
Eileen S. Kraus, Director	John D. Opie, Director
*	
Kathryn D. Wriston, Director	

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

FORM 10-K

ITEM 15(a) (1) AND (2)

THE STANLEY WORKS AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

Consent of Independent Auditors

We consent to the incorporation by reference in the following registration statements of The Stanley Works and subsidiaries of our report dated January 28, 2004, except for Note V, as to which the date is March 9, 2004, with respect to the Consolidated Financial Statements and schedule of The Stanley Works and subsidiaries included in this Annual Report (Form 10-K) for the year ended January 3, 2004.

- Registration Statement (Form S-8 No. 2-93025)
- Registration Statement (Form S-8 No. 2-96778)
- Registration Statement (Form S-8 No. 2-97283)
- Registration Statement (Form S-8 No. 33-16669)
- Registration Statement (Form S-3 No. 33-12853)
- Registration Statement (Form S-3 No. 33-19930)
- Registration Statement (Form S-8 No. 33-39553)
- Registration Statement (Form S-8 No. 33-41612)
- Registration Statement (Form S-3 No. 33-46212)
- Registration Statement (Form S-3 No. 33-47889)
- Registration Statement (Form S-8 No. 33-55663)
- Registration Statement (Form S-8 No. 33-62565)
- Registration Statement (Form S-8 No. 33-62567)
- Registration Statement (Form S-8 No. 33-62575)
- Registration Statement (Form S-8 No. 333-42346)
- Registration Statement (Form S-8 No. 333-42582)
- Registration Statement (Form S-8 No. 333-64326)
- Registration Statement (Form S-4 No. 333-89200)

/s/ ERNST & YOUNG LLP

Hartford, Connecticut
March 16, 2004

Schedule II — Valuation and Qualifying Accounts
The Stanley Works and Subsidiaries
Fiscal years ended January 3, 2004, December 28, 2002 and December 29, 2001
(Millions of Dollars)

Description	Beginning Balance	ADDITIONS Charged to Costs and Expenses	(b) Charged To Other Accounts	(a) Deductions	Ending Balance
Allowance for Doubtful Accounts:					
Year Ended 2003					
Current	$26.2	$49.7(c)	$ 2.5	$38.6	$39.8(c)
Non-current	1.2	10.9(c)	5.3	7.0	10.4(c)
Year Ended 2002:					
Current	31.9	6.7	2.4	14.8	26.2
Non-current	1.4	—	(0.2)	—	1.2
Year Ended 2001:					
Current	40.7	17.0	(2.0)	23.8	31.9
Non-current	0.6	—	1.0	0.2	1.4
Tax Valuation Allowance:					
Year Ended 2003:	$15.2	$10.7	$ —	$ 4.5	$21.4
Year Ended 2002:	21.0	3.3	—	9.1	15.2
Year Ended 2001:	16.1	6.8	—	1.9	21.0
Inventory Reserves:					
Year Ended 2003:	$75.1	$53.4	$ 0.2	$66.3	$62.4
Year Ended 2002:	56.0	45.5	2.2	28.6	75.1
Year Ended 2001:	84.7	8.9	0.2	37.8	56.0

(a) Represents doubtful accounts charged-off, less recoveries of accounts previously charged-off.

(b) Represents foreign currency translation impact, acquisitions, and net transfers to / from other accounts.

(c) In 2003 the Company acquired a third party's interest in a special purpose entity which supports the Mac Tools extended financing programs. As a result, the entity became non-qualifying and the net assets, which consist of net notes receivable of $56.4 million at January 3, 2004, have been consolidated in the Company's balance sheet. Other-net in the 2003 Consolidated Statement of Operations includes $24.5 million of financing receivable losses for these programs, including $9.7 million pertaining to the exit from the Mac Tools retail channel. The related allowance for doubtful accounts of $14.8 million at January 3, 2004 for the Mac Tools extended financing programs is comprised of $5.6 million current and $9.2 million long-term reserves.

REPORT OF INDEPENDENT AUDITORS

The Shareowners
The Stanley Works

We have audited the accompanying Consolidated Balance Sheets of The Stanley Works and subsidiaries as of January 3, 2004 and December 28, 2002, and the related Consolidated Statements of Operations, Changes in Shareowners' Equity, and Cash Flows for each of the three fiscal years in the period ended January 3, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the consolidated financial position of The Stanley Works and subsidiaries at January 3, 2004 and December 28, 2002, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 3, 2004, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as whole, presents fairly in all material respects the information set forth therein.

As discussed in Note G to the Consolidated Financial Statements, effective December 30, 2001, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets."

/s/ ERNST & YOUNG LLP

Hartford, Connecticut
January 28, 2004
except for Note V, as to which the date is
March 9, 2004

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal years ended January 3, 2004, December 28, 2002
and December 29, 2001
(Millions of Dollars, except per share amounts)

	2003	2002	2001
Net Sales	$2,678.1	$2,383.6	$2,393.8
Costs and Expenses			
Cost of sales	$1,785.3	$1,593.7	$1,532.4
Selling, general and administrative	601.7	519.0	535.7
Provision for doubtful accounts	36.1	6.7	17.0
Interest income	(5.9)	(4.0)	(6.7)
Interest expense	34.2	28.4	32.3
Other-net	40.5	(9.0)	(8.8)

Restructuring charges and asset impairments	53.2	—	72.2
	$2,545.1	$2,134.8	$2,174.1
Earnings from Continuing Operations Before Income Taxes	133.0	248.8	219.7
Income Taxes	36.3	78.5	71.9
Net Earnings from Continuing Operations	$ 96.7	$ 170.3	$ 147.8
Net Earnings from Discontinued Operations	11.2	14.7	10.5
Net Earnings	**$ 107.9**	**$ 185.0**	**$ 158.3**
Basic earnings per share of common stock:			
Continuing operations	$ 1.15	$ 1.97	$ 1.72
Discontinued operations	0.13	0.17	0.12
Total basic earnings per share of common stock	$ 1.28	$ 2.14	$ 1.85
Diluted earnings per share of common stock:			
Continuing operations	$ 1.14	$ 1.93	$ 1.69
Discontinued operations	0.13	0.17	0.12
Total diluted earnings per share of common stock	$ 1.27	$ 2.10	$ 1.81

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

January 3, 2004 and December 28, 2002
(Millions of Dollars)

	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents	$ 204.4	$ 121.7
Accounts and notes receivable	482.4	536.1
Inventories	377.1	408.6
Deferred taxes	23.6	21.2
Prepaid expenses	61.3	65.2
Assets held for sale	37.9	47.0
Other current assets	14.0	11.4
Total Current Assets	1,200.7	1,211.2
Property, Plant and Equipment	413.3	474.1
Goodwill	432.8	347.9
Other Intangible Assets	210.5	197.0
Other Assets	166.5	188.0
Total Assets	**$2,423.8**	**$2,418.2**
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities		
Short-term borrowings	$ —	$ 140.1
Current maturities of long-term debt	157.7	8.6
Accounts payable	240.2	238.9
Accrued expenses	326.4	266.5
Liabilities held for sale	29.2	27.9
Total Current Liabilities	753.5	682.0
Long-Term Debt	534.5	563.2
Other Liabilities	277.2	189.2
Commitments and Contingencies (Notes R and T)		
Shareowners' Equity		
Preferred stock, without par value: Authorized and unissued 10,000,000 shares		
Common stock, par value $2.50 per share:		
Authorized 200,000,000 shares; issued 92,343,410 shares in 2003 and 2002	237.6	230.9
Retained earnings	1,202.1	1,244.6
Accumulated other comprehensive loss	(84.2)	(123.4)
ESOP debt	(173.8)	(180.8)
	1,181.7	1,171.3
Less: cost of common stock in treasury (11,066,589 shares in 2003 and 5,508,293 shares in 2002)	323.1	187.5
Total Shareowners' Equity	858.6	983.8
Total Liabilities and Shareowners' Equity	**$2,423.8**	**$2,418.2**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal years ended January 3, 2004, December 28, 2002
and December 29, 2001
(Millions of Dollars)

	2003	2002	2001
Operating Activities:			
Net earnings	$ 107.9	$ 185.0	$ 158.3
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	86.5	71.2	81.8
Provision for doubtful accounts	36.0	6.7	17.2
Restructuring and asset impairments	53.2	—	72.4
Other non-cash items	38.1	29.4	1.2

Changes in operating assets and liabilities:			
Accounts and notes receivable	62.3	29.0	(32.6)
Inventories	24.1	(8.4)	(14.6)
Accounts payable and accrued expenses	20.5	3.4	(66.8)
Income taxes	16.5	(49.1)	25.7
Other	19.2	17.9	(21.0)
Net cash provided by operating activities	464.3	285.1	221.6
Investing Activities:			
Capital expenditures	(31.4)	(37.2)	(55.7)
Capitalized software	(8.0)	(15.1)	(17.4)
Proceeds from sales of assets	4.7	11.5	9.8
Business acquisitions	(22.3)	(355.9)	(79.3)
Other	5.0	1.2	(27.2)
Net cash used in investing activities	(52.0)	(395.5)	(169.8)
Financing Activities:			
Payments on long-term debt	(18.1)	(115.0)	(2.4)
Proceeds from long-term borrowings	3.3	352.5	75.0
Net repayments of short-term financing	(140.8)	(39.3)	(29.3)
Debt issuance costs	(0.3)	(15.0)	—
Equity hedge settlement	(101.0)	—	—
Proceeds from issuance of common stock	4.3	17.4	25.4
Purchase of common stock for treasury	—	—	(11.0)
Cash dividends on common stock	(86.1)	(85.6)	(80.5)
Net cash provided by (used in) financing activities	(338.7)	115.0	(22.8)
Effect of exchange rate changes on cash	9.1	1.9	(7.4)
Increase in cash and cash equivalents	82.7	6.5	21.6
Cash and cash equivalents, beginning of year	121.7	115.2	93.6
Cash and cash equivalents, end of year	**$ 204.4**	**$ 121.7**	**$ 115.2**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY

Fiscal years ended January 3, 2004, December 28, 2002 and December 29, 2001 (Millions of Dollars, except per share amounts)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	ESOP Debt	Treasury Stock	Shareowners' Equity
Balance December 30, 2000	$230.9	$1,039.6	$(124.5)	$(194.8)	$(214.7)	$ 736.5
Comprehensive income:						
Net earnings		158.3				158.3
Currency translation adjustment and other			(12.6)			(12.6)
Minimum pension liability			(1.8)			(1.8)
Total comprehensive income						143.9
Cash dividends declared-$0.94 per share		(80.5)				(80.5)
Issuance of common stock		(9.0)			35.6	26.6
Purchase of common stock					(10.8)	(10.8)
Equity hedge shares received		67.0			(67.0)	—
Tax benefit related to stock options		3.7				3.7
ESOP debt decrease and tax benefit		5.8		7.1		12.9
Balance December 29, 2001	230.9	1,184.9	(138.9)	(187.7)	(256.9)	832.3
Comprehensive income:						
Net earnings		185.0				185.0
Currency translation adjustment and other			17.8			17.8
Minimum pension liability			(2.3)			(2.3)
Total comprehensive income						200.5
Cash dividends declared-$0.99 per share		(85.6)				(85.6)
Issuance of common stock		(5.1)			27.8	22.7
Equity hedge shares delivered		(41.6)			41.6	—
Tax benefit related to stock options		3.0				3.0
ESOP debt decrease and tax benefit		4.0		6.9		10.9
Balance December 28, 2002	230.9	1,244.6	(123.4)	(180.8)	(187.5)	983.8
Comprehensive income:						
Net earnings		107.9				107.9
Currency translation adjustment and other			49.7			49.7
Minimum pension liability			(3.8)			(3.8)
Total comprehensive income						153.8
Cash dividends declared-$1.03 per share		(86.1)				(86.1)
Issuance of common stock		(2.1)			12.4	10.3
Minority interest common stock	6.7		(6.7)			—
Equity hedge shares delivered		(66.0)			66.0	—
Restructured equity hedge settlement					(214.0)	(214.0)
Tax benefit related to stock options		0.3				0.3
ESOP debt decrease and tax benefit		3.5		7.0		10.5
Balance January 3, 2004	**$237.6**	**$1,202.1**	**$ (84.2)**	**$(173.8)**	**$(323.1)**	**$ 858.6**

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries which require consolidation, after the elimination of intercompany accounts and transactions. The Company's fiscal year ends on the Saturday nearest to December 31. There were 53 weeks in fiscal year 2003 and 52 weeks in fiscal years 2002 and 2001.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as certain financial statement disclosures. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from these estimates.

Foreign Currency Translation

For foreign operations with functional currencies other than the U.S. dollar, asset and liability accounts are translated at current exchange rates; income and expenses are translated using weighted average exchange rates. Resulting translation adjustments, as well as gains and losses from certain intercompany transactions, are reported in a separate component of shareowners' equity. Translation adjustments for operations in highly inflationary economies and exchange gains and losses on transactions are included in earnings, and amounted to net (gains)/losses for 2003, 2002 and 2001 of $(4.8) million, $0.6 million and $(3.3) million, respectively.

Cash Equivalents

Highly liquid investments with original maturities of three months or less are considered cash equivalents.

Accounts Receivable

Trade receivables are stated at gross invoice amount less discounts, other allowances, returns and provision for uncollectible accounts. The Company extends long-term credit to customers to fund the Mac Advantage financing program and also provides long-term secured financing to Mac Tools wholesale distributors. Interest on these loans accrues until the loan becomes delinquent, typically when payments are 120 days past due, at which the time they are written off. Payments received related to these loans subsequent to being written off are recorded as recoveries to the allowance for doubtful accounts. The net activity of the Mac Tools extended financing programs is classified in Other-net in the Consolidated Statements of Operations.

Allowance for Doubtful Accounts

The Company estimates its allowance for doubtful accounts using two methods. First, a specific reserve is established for individual accounts where information is available that customers may have an inability to meet financial obligations. Second, a reserve is determined for all customers based on a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience. Actual write offs are charged against the allowance when internal collection efforts have been unsuccessful, generally when payments are more than 120 days past due.

Inventories

U.S. inventories, aside from the Best and Home Décor businesses and recent small acquisitions, are valued at the lower of Last-In, First-Out (LIFO) cost or market. Other inventories are generally valued at the lower of First-In, First-Out (FIFO) cost or market.

Property, Plant and Equipment (PP&E)

The Company generally values PP&E on the basis of historical cost less accumulated depreciation. Depreciation is provided using straight-line methods over the estimated useful lives of the assets. Costs related to maintainance and repairs which do not prolong the assets useful lives are expensed as incurred. Impairment losses are recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The amount of the impairment loss, if any, 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. Primarily as a result of plant rationalization, certain facilities and equipment are not currently used in operations, which has resulted in impairment losses. The following table summarizes PP&E impairment charges by segment and the classification of these charges within the Consolidated Statements of Operations.

Fixed Asset Impairment Charges	Tools	Doors	Total
2003			
Other-net	$ 4.9	$ —	$ 4.9
Restructuring charges and asset impairments	26.3	0.7	27.0
2002			
Other-net	8.4	—	8.4
2001			
Restructuring charges and asset impairments	$10.1	$0.3	$10.4

Goodwill and Other Intangible Assets

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Intangible assets acquired are recorded at cost. Goodwill and other intangible assets were historically amortized using the straight-line method over their estimated useful lives. As of January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets." Under the provisions of this Statement, goodwill and intangible assets deemed to have indefinite lives are no longer subject to amortization but are tested for impairment annually and at any time where events suggest impairment may have occurred. The identification and measurement of goodwill and unamortized intangibles impairment involves the estimation of the fair value of reporting units, which primarily incorporates management assumptions about future cash flows. In the event the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized for the amount of that excess. Intangible assets with definite lives are amortized over their estimated useful lives.

Financial Instruments

Derivative financial instruments are employed to manage risks including foreign currency and interest rate exposures and are not used for trading or speculative purposes. The Company recognizes all derivative instruments, such as interest rate swap agreements, foreign currency options, and foreign exchange contracts, in the Consolidated Balance Sheets at fair value. Changes in the fair value of derivatives are recognized periodically either in income or in shareowners' equity as a component of other comprehensive income, depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the changes in the fair values of the hedged items that relate to the hedged risk. Gains and losses on derivatives designated as cash flow hedges, to the extent they are effective, are recorded in other comprehensive income, and subsequently reclassified to earnings to offset the impact of the hedged item when it occurs. Changes in the fair value of derivatives used as hedges of the net investment in foreign operations are reported in other comprehensive income as part of the cumulative translation adjustment. Changes in the fair value of derivatives not qualifying as hedges, and for any portion of a hedge that is ineffective, are reported in income. In the event the forecasted transaction to which a cash flow hedge relates is no longer likely, the amount in other comprehensive income is recognized in earnings and generally the derivative is terminated.

The net interest paid or received on interest rate swaps is recognized as interest expense. Gains resulting from the early termination of interest rate swap agreements are deferred and amortized as adjustments to interest expense over the remaining period of the debt originally covered by the terminated swap.

At times the Company manages exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of forward exchange contracts or currency options. The Company may also enter into forward exchange contracts to hedge intercompany loans and enter into purchased foreign currency options to hedge anticipated transactions as it deems appropriate. Gains and losses on forward exchange contracts are deferred and recognized as part of the underlying transactions. Changes in the fair value of options, representing a basket of foreign currencies to hedge anticipated cross-currency cash flows, are included in cost of sales.

Revenue Recognition

Revenue is recognized when the earnings process is complete and the risks and rewards of ownership have transferred to the customer, which generally occurs upon shipment of the finished product but sometimes is upon delivery to customer facilities.

The Best and Access Technologies businesses sell security related products and automatic doors which include multiple elements of products and services. Revenues from multiple element arrangements are recognized as each element is earned, consistent with the requirements of Emerging Issues Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables". Amounts allocated to each element are based on objectively determined fair value. Revenues from multiple element arrangements were $223 million in 2003, $111 million in 2002 and $89 million in 2001.

Income Taxes

Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes, and are measured by applying enacted tax rates in effect in years in which the differences are expected to reverse.

Earnings Per Share

Basic earnings per share equals net earnings divided by weighted average shares outstanding during the year. Diluted earnings per share include the impact of common stock equivalents using the treasury stock method when the effect is dilutive.

Shipping and Handling Costs

It is the general practice of the Company to not bill customers for freight. Shipping and handling costs associated with inbound freight are included in cost of sales. Shipping costs associated with outbound freight are included as a reduction in net sales and amounted to $114 million, $103 million and $119 million in 2003, 2002 and 2001, respectively. The Company records distribution costs in selling, general and administrative (SG&A) expenses that amounted to $80 million, $68 million and $71 million in 2003, 2002 and 2001, respectively.

New Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143 "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. The adoption of SFAS No. 143 in fiscal 2003 had no impact on the Company.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires costs associated with exit or disposal activities to be recognized when they are incurred and applies prospectively to such activities that are initiated in fiscal 2003 and beyond. The Company adopted SFAS No. 146 for 2003. This standard impacted the timing of recognition of costs associated with exit and disposal activities which are discussed in Note O Restructuring, Asset Impairments & Other Charges.

In November 2002, FASB Interpretation No. (FIN) 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued. This Interpretation expands the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. The Company adopted the disclosure requirements as required by the Interpretation as of December 28, 2002. The Interpretation also requires that a liability for fair value of the obligation be recorded at the inception of a guarantee, for all guarantees issued or modified after December 31, 2002. The adoption of this accounting in fiscal 2003 had no significant impact on the Company.

In January 2003, the FASB issued FIN 46 "Consolidation of Variable Interest Entities." This Interpretation addresses consolidation of variable interest entities which have equity investment at risk insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or entities with equity investors lacking certain essential characteristics of controlling financial interest. The original implementation date in 2003 for this Interpretation was postponed by action of the FASB and was finally amended in December 2003. Generally, the implementation of this interpretation by the Company is required for the Company's quarter ending April 3, 2004. The adoption of FIN 46 is not expected to have a material impact on the Company.

On May 15, 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. This Statement was required to be applied immediately to instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The Company had $213 million notional value Stanley common stock forward contracts (equity hedges) which were implemented in previous years in an effort to offset the diluted share count from changes in the stock price. When the stock price rose, the Company would benefit from the hedge by partially offsetting the impact of the diluted share count from in-the-money stock options. These hedges, however, had an opposite result with a declining stock price. As a risk mitigation initiative and in conjunction with the new accounting rules under SFAS No. 150, the Company restructured the $213 million equity hedge contracts. On April 14, 2003, $100 million of stock was purchased from the equity hedge counterparties which decreased shares then outstanding by 3.9 million. These transactions were completed using a combination of borrowings under existing lines of credit and available cash. No open market purchase of shares occurred. The remaining $113 million in forward contracts were modified to full physical settlement contracts with a fixed notional principal of $113 million and 4.1 million of underlying shares. These contracts are being settled over four years in equal quarterly installments and do not contain the same dilution protection (or risk) as the former contracts. The Company has the right to repurchase all or part of these shares at a cost of $27.73 per share at any time during the four year period, plus the interest carried on the debt for the dividends paid on the shares. As a result of adopting SFAS No. 150, the notional principal balance, $99 million as of January 3, 2004, is recognized as a liability on the balance sheet and the 3.6 million underlying shares are reflected as treasury stock and excluded from the amount of shares used to calculate basic and diluted earnings per share.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans using the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation cost is recognized for stock-based compensation unless the quoted market price of the stock at the grant date is in excess of the amount the employee must pay to acquire the stock. Stock-based employee compensation is discussed further in Note K Capital Stock.

If compensation cost for the Company's stock-based compensation plans had been determined based on the fair value at the grant dates consistent with the method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation", the Company's net earnings and earnings per share would have been adjusted to the pro forma amounts indicated below:

	2003	2002	2001
	(Millions of Dollars, except for per share data)		
Net earnings, as reported	$107.9	$185.0	$158.3
Less: Tax benefit on actual option exercises included in reported net earnings	0.3	3.0	3.7
Less: Stock-based employee compensation expense determined under fair value method, net of related tax effects	1.9	5.4	3.8
Pro forma net earnings, fair value method	$105.7	$176.6	$150.8
Earnings per share:			
Basic, as reported	$ 1.28	$ 2.14	$ 1.85
Basic, pro forma	$ 1.26	$ 2.04	$ 1.76
Diluted, as reported	$ 1.27	$ 2.10	$ 1.81
Diluted, pro forma	$ 1.25	$ 2.00	$ 1.72

Pro forma compensation cost relating to the stock options is recognized over the vesting period. The vesting periods used for 2003, 2002 and 2001 stock option grants are 2.9 years, 3.9 years and 3.6 years, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2003, 2002 and 2001, respectively: dividend yield of 3.6%, 3.2% and 2.6%; expected volatility of 25%, 30%, and 40%; risk-free interest rates of 3.3%, 3.2% and 4.8%; and expected lives of 5 years in 2003 and 2002, and 7 years in 2001. The weighted average fair value of stock options granted in 2003, 2002 and 2001 was $5.17, $7.30 and $14.31, respectively.

Employee Stock Purchase Plan compensation cost is recognized in the fourth quarter when the purchase price for the following fiscal year is established. The fair value of the employees' purchase rights under the Employee Stock Purchase Plan was estimated using the following assumptions for 2003, 2002 and 2001, respectively: dividend yield of 3.9%, 3.3% and 3.0%; expected volatility of 25%, 30%, and 40%; risk-free interest rates of 1.2%, 1.9% and 2.0%; and expected lives of one year. The weighted average fair value of those purchase rights granted in 2003, 2002 and 2001 was $6.35, $7.50 and $8.48, respectively.

Reclassifications

Certain prior years' amounts have been reclassified to conform to the current year presentation. In addition the assets and liabilities of the discontinued operation have been reclassified as held for sale in the Consolidated Balance Sheets, and the earnings from discontinued operations have been reclassified within the Consolidated Statement of Operations.

In January 2002, the Company adopted EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor's Products or Services." EITF No. 00-25 requires the reclassification of certain customer promotional payments previously reported in SG&A expenses as a reduction of revenue, and prior periods must be restated for comparability of results. Net sales and SG&A expenses are $14.2 million lower for fiscal year 2001 than previously published amounts, reflecting reclassification of certain cooperative advertising expenses.

B. ACQUISITIONS

On November 25, 2002, the Company completed the acquisition of Best Lock Corporation (Best) for $316.0 million. Best is a global provider of security access control systems. In 2003, the Company made a $0.6 million additional purchase price payment for Best which was accounted for as an increase to goodwill.

The Company finalized its allocation of the purchase price for Best in 2003 to reflect the final determination of the fair value of assets and liabilities acquired and related deferred tax liabilities. The final allocation of the purchase price was to the following major balance sheet categories:

	(Millions of Dollars)
Current assets, primarily accounts receivable and inventories	$ 67.0
Property, plant, and equipment	21.7
Goodwill	172.9
Other intangible assets	165.4
Total assets	$427.0
Current liabilities	$ 41.9
Other liabilities (primarily deferred taxes)	68.5
Total liabilities	$110.4

If the results of operations of Best were included for the entire 2002 and 2001 fiscal years, net sales would have been $220.1 million and $243.3 million higher than the results reported in the 2002 and 2001 Consolidated Statements of Operations, respectively. Net income and earnings per share during these periods would not have been significantly different; however, Best operating results during these periods are not necessarily indicative of future operating results.

In addition to the Best acquisition, the Company acquired three small businesses at a total cost of $23.4 million in 2003 and five small businesses at a total cost of $42.7 million in 2002. Purchase accounting for certain 2003 acquisitions is preliminary, primarily with respect to identification and valuation of intangibles, and is expected to be finalized by mid 2004.

The aforementioned acquisitions were accounted for as purchase transactions and, accordingly, the operating results have been included in the Company's Consolidated Financial Statements since the date of acquisition. The acquisitions did not have a material impact on 2003 and 2002 operations.

Included in the acquired liabilities of Best are $6.4 million in restructuring reserves which were established in purchase accounting for the planned closure of several Best offices and synergies in certain centralized functions. The $6.4 million was comprised of $5.3 million for severance and $1.1 million of other exit costs primarily related to non-cancelable leases. The Company began formulating the restructuring plans during the pre-acquisition due diligence work and these plans include activities initiated by Best management prior to the acquisition. As of January 3, 2004, all but $0.7 million of the reserves were expended.

C. ACCOUNTS AND NOTES RECEIVABLE

	2003	2002
	(Millions of Dollars)	
Trade receivables	$495.6	$495.7
Other	26.6	66.6
Gross accounts and notes receivable	522.2	562.3
Allowance for doubtful accounts	(39.8)	(26.2)
Net accounts and notes receivable	$482.4	$536.1

Trade receivables are dispersed among a large number of retailers, distributors and industrial accounts in many countries. Adequate provisions have been established to cover anticipated credit losses.

The Company has agreements to sell, on a revolving basis, undivided interests in defined pools of notes receivable to a Qualified Special Purpose Entity (QSPE). The entity is designed to facilitate the securitization of certain trade accounts receivable and is used as an additional source of liquidity. At January 3, 2004 and December 28, 2002, the defined pools of receivables amounted to $124.4 million and $133.6 million, respectively. The proceeds from sales of such eligible receivables, to the QSPE, in revolving-period securitizations were $21.0 million in 2003 and $11.0 million in 2002, and these amounts have been deducted from receivables in the January 3, 2004 and December 28, 2002 Consolidated Balance Sheets. There were no gains or losses on these sales. The Company is responsible for servicing and collecting the receivables sold and held in the QSPE. Any incremental additional costs related to such servicing and collection efforts are not significant.

In 2003, the Company acquired a third party's interest in a second Special Purpose Entity (SPE) which supports the Mac Tools extended financing programs. As a result, the entity became non-qualifying and the net assets, which consist of notes receivable of $56.4 million at January 3, 2004, have been consolidated in the Company's balance sheet. Cash flows between the Company and the SPE for 2003 totaled $21.0 million, primarily related to receivable sales, collections on receivables and servicing fees. During 2003, the Company sold a portion of this portfolio to a third party for approximately $40 million and recognized a loss on the sale of approximately $6 million. As of December 28, 2002, this QSPE had $104.5 million of gross receivables and the Company had $32.4 million in receivables due from the QSPE. There were no gains or losses on the sale of receivables to the QSPE.

D. INVENTORIES

	2003	2002
	(Million of Dollars)	
Finished products	$293.7	$323.7
Work in process	35.8	43.1
Raw materials	47.6	41.8
Total	$377.1	$408.6

Inventories in the amount of $251.4 million at January 3, 2004 and $304.8 million at December 28, 2002 were valued at the lower of LIFO cost or market. If the LIFO method had not been used, inventories would have been $46.9 million higher than reported at January 3, 2004, and $46.1 million higher than reported at December 28, 2002. The LIFO method is utilized in determining inventory value as it results in a better matching of cost and revenues.

E. ASSETS HELD FOR SALE

At January 3, 2004, the Company has four properties, valued at $4.9 million, classified as held for sale related to plant rationalization activities. These assets are all reported within the Tools segment and consist of real property which is expected to be disposed of throughout the next year. At December 28, 2002, the Company had five properties held for sale with a book value of $5.2 million. Two of the properties held for sale at December 28, 2002 were sold during 2003, and three continue to be held for sale. In addition to the aforementioned real properties, the net assets of the entry door business are classified as held for sale as detailed in Note U Discontinued Operations. Assets held for sale are carried at the lower of fair value or historical book value.

F. PROPERTY, PLANT AND EQUIPMENT

	2003	2002	Useful Life (Years)
	(Millions of Dollars)		
Land	$ 24.3	$ 23.6	N/A
Land Improvements	17.4	17.4	10-20
Buildings	222.3	217.1	40
Machinery and equipment	880.4	929.7	3-15
Computer software	86.8	93.3	3-5
	$1,231.2	$1,281.1	
Less: accumulated depreciation and amortization	817.9	807.0	
Total	$ 413.3	$ 474.1	

	2003	2002	2001
	(Millions of Dollars)		
Depreciation	$57.2	$55.0	$55.5
Amortization	12.9	10.3	12.4
Depreciation and amortization expense	$70.1	$65.3	$67.9

G. GOODWILL AND OTHER INTANGIBLE ASSETS

GOODWILL In January 2002, the Company adopted SFAS No. 142 "Goodwill and Other Intangible Assets", which changed the accounting for goodwill and intangible assets with an indefinite life whereby such assets are no longer amortized. For these assets, SFAS No. 142 requires an initial evaluation for impairment upon adoption and annual evaluations thereafter. The Company performed the initial evaluation upon adoption and the subsequent evaluations were performed in the third quarters of 2003 and 2002; none of the evaluations resulted in an impairment loss. The table below shows comparative pro-forma financial information as if goodwill had not been amortized for all periods presented (in millions, except per share amounts).

	2003	2002	2001
Reported net earnings	$107.9	$185.0	$158.3
Goodwill amortization, net of tax	—	—	6.6
Adjusted net earnings	$107.9	$185.0	$164.9
Reported basic earnings per share	$ 1.28	$ 2.14	$ 1.85
Goodwill amortization, net of tax, per share	—	—	0.07
Adjusted basic earnings per share	$ 1.28	$ 2.14	$ 1.92
Reported diluted earnings per share	$ 1.27	$ 2.10	$ 1.81
Goodwill amortization, net of tax, per share	—	—	0.07
Adjusted diluted earnings per share	$ 1.27	$ 2.10	$ 1.88

The changes in the carrying amount of goodwill by segment are as follows:

	Tools	Doors	Total
	(Millions of Dollars)		
Balance December 28, 2002	$209.0	$138.9	$347.9
Acquisitions during the year	9.4	5.3	14.7

Final purchase accounting allocations	(2.9)	65.1	62.2
Foreign currency translation and other	7.5	0.5	8.0
Balance January 3, 2004	$223.0	$209.8	$432.8

The principal increase in goodwill during 2003 resulted from the completion of the purchase accounting for the Best acquisition and related allocation of fair value to assets and liabilities acquired along with the associated deferred taxes on intangibles. Purchase accounting for certain 2003 acquisitions is preliminary, primarily with respect to identification and valuation of intangibles, and is expected to be finalized by mid 2004, and as a result, goodwill may be adjusted.

Other Intangible Assets

Other intangible assets, at January 3, 2004 and December 28, 2002 were as follows:

	2003		2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(Millions of Dollars)			
Amortized Intangible Assets — Definite lives				
Patents and copyrights	$ 14.4	$(10.1)	$ 17.6	$(13.2)
Trademarks	17.6	(9.8)	16.7	(9.1)
Customer relationships	120.7	(10.5)	109.9	(1.2)
Other intangible assets	20.8	(9.9)	11.3	(6.2)
Total	$173.5	$(40.3)	$155.5	$(29.7)
Unamortized Intangible Assets — Indefinite lives				
Trademarks	$ 69.8		$ 67.7	
Minimum pension liability	7.5		3.5	
Total	$ 77.3		$ 71.2	

Aggregate other intangibles amortization expense was $14.0 million, $3.7 million and $2.7 million for 2003, 2002 and 2001, respectively. Estimated amortization expense is $13.1 million for 2004, $12.8 million for 2005, $12.0 million for 2006, $11.3 million for 2007 and $9.5 million for 2008.

During 2003, the Company acquired certain businesses as discussed in Note B. In connection with these acquisitions, the Company recorded intangible assets. The purchase accounting, including amounts attributable to the fair value of identifiable intangible assets, is preliminary. When the purchase accounting is finalized, these amounts may be adjusted. The major intangible asset classes associated with these acquisitions have the following balances at January 3, 2004:

	Gross Carrying Amount	Accumulated Amortization	Weighted Average Useful Life (years)
	(Millions of Dollars)		
Amortized Intangible Assets			
Customer relationships	$10.9	$(1.6)	5
Patents and copyrights	0.5	(0.1)	5
Other intangible assets	4.5	(0.4)	8
Total	$15.9	$(2.1)	
Unamortized Intangible Assets			
Trademarks	$ 1.8		

H. ACCRUED EXPENSES

Accrued expenses at January 3, 2004 and December 28, 2002 follow:

	2003	2002
	(Millions of Dollars)	
Payroll and related taxes	$ 50.9	$ 35.6
Insurance	29.2	31.6
Restructuring	7.4	8.7
Trade allowances	49.9	33.0
Income taxes	76.1	59.5
Other	112.9	98.1
Total	$326.4	$266.5

I. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

Long-term debt and financing arrangements at January 3, 2004 and December 28, 2002 follow (millions of dollars):

	Interest Rate	2003	2002
Notes payable in 2004	5.8%	$120.0	$120.0
Notes payable in 2007	4.5%	75.0	75.0
Notes payable in 2007	3.5%	150.0	150.0
Notes payable in 2012	4.9%	200.0	200.0
Industrial Revenue Bonds due in 2010	6.3%-6.8%	5.6	5.6
ESOP loan guarantees, payable in varying monthly installments through 2009	6.1%	12.9	17.4
Equity hedge indebtedness, payable in quarterly installments through 2007	Libor plus 1.25%	98.9	—
Other, including net swap receivables, payable in varying amounts through 2008	2.0-10.1%	29.8	3.8
		692.2	571.8
Less: current maturities		157.7	8.6
Total		$534.5	$563.2

The Company has unused committed short-term and long-term credit arrangements with several U.S. banks to borrow up to $350.0 million at the lower of prime or money market rates. Of this amount, $100.0 million is long-term. At the Company's option, the $250 million short term credit lines may be automatically extended to a maturity of October 2005. Commitment fees range from 0.06% to 0.08%. In addition, the Company has short-term lines of credit with numerous foreign banks aggregating $67.0 million, of which the entire amount was available at January 3, 2004. Short-term arrangements are reviewed annually for renewal. Of the aggregate $417 million long-term and short-term lines, $350.0 million is available to support the Company's commercial paper program. The weighted average interest rates on short-term borrowings at January 3, 2004 and December 28, 2002 were 1.2% and 1.7%, respectively.

To manage interest costs and foreign exchange risk, the Company maintains a portfolio of interest rate swap agreements. See Note J Financial Instruments for more information regarding the Company's interest rate and currency swap agreements.

Aggregate annual maturities of long-term debt for each of the years from 2005 to 2008 are $34.5 million, $29.3 million, $240.2 million and $4.8 million, respectively. Interest paid during 2003, 2002 and 2001 amounted to $32.9 million, $25.6 million and $33.4 million, respectively.

Included in short-term borrowings on the Consolidated Balance Sheets as of December 28, 2002, are commercial paper and Extendible Commercial Notes utilized to support working capital requirements, of $129.0 million.

On November 1, 2002, the Company issued 5-year and 10-year notes payable of $150.0 million and $200.0 million, respectively. The proceeds from these notes were used to acquire Best Lock Corporation and for general corporate purposes.

In June 2003, $113.0 million in Stanley common stock equity hedge forward contracts were modified to full physical settlement contracts with a fixed notional principal of $113.0 million and 4.1 million of underlying shares. These contracts are being settled with required cash payments over four years in equal quarterly installments. As a result of adopting SFAS No. 150, the remaining notional principal balance of $98.9 million as of January 3, 2004, is recognized as a liability on the Consolidated Balance Sheet and the 3.6 million underlying shares are excluded from the amount of shares used to calculate basic and diluted earnings per share. The $98.9 million liability represents the amount that would be paid if settlement were to occur as of January 3, 2004. Changes in the value of the shares of Stanley common stock have no effect on any future settlement amounts.

J. FINANCIAL INSTRUMENTS

The Company's objectives in using debt related financial instruments are to obtain the lowest cost source of funds within an acceptable range of variable to fixed-rate debt proportions and to minimize the foreign exchange risk of obligations. To meet these objectives the Company enters into interest rate swap and currency swap agreements.

The Company uses purchased currency options and forward exchange contracts to reduce exchange risks arising from cross-border cash flows expected to occur over the next one year period. In addition, the Company enters into forward exchange contracts to hedge inter-company loans and royalty payments. The objective of these practices is to minimize the impact of foreign currency fluctuations on operating results. At January 3, 2004 and December 28, 2002, the Company had forward contracts hedging inter-company loans totaling $11.2 million and $12.7 million, respectively and they are accounted for as cash flow hedges. At January 3, 2004 and December 28, 2002, currency options hedged anticipated transactions totaling $118.0 million and $128.1 million, respectively. The forward contracts and options are denominated in Canadian dollars, Australian dollars, Taiwanese dollars, Japanese Yen, Thailand Baht, Great Britain Pound, Israeli Shekels, Polish Zloty and Euro and generally mature within the next one year period. The gains and losses recorded on these transactions are not material to the Company's Consolidated Financial Statements.

The Company entered into two interest rate swap arrangements in March, 2003. These interest rate swaps are fixed to floating rate arrangements with the floating rate based on the 3 month LIBOR rate. These swaps are fair value hedges for a portion of the $150 million five year and $200 million ten year notes issued in November of 2002. The notional values of the hedges are $75 million and $100 million with termination dates of November 2007 and November 2012 respectively. There were no gains or losses recorded on these swaps.

The Company entered into two additional interest rate swap arrangements in June and October 2003 with notional values of $60 million each. These interest rate swaps are floating to fixed rate arrangements with a forward start date of March 1, 2004. These swaps were terminated in November 2003 pursuant to the Company's decision not to refinance the $120 million of debt maturing in March 2004. The gain associated with the swap termination totaled $2.8 million and is recorded in Other-net in the Consolidated Statements of Operations. The $120 million of debt has been classified as current in the Company's Consolidated Balance Sheet.

In addition, the Company entered into currency options denominated in the Great Britain Pound in order to mitigate the currency exposure related to the proposed transaction of Blick plc, as further discussed in Note V, Subsequent Events. These options have a notional value of 48.3 million Great Britain Pounds representing approximately half the purchase price of Blick plc and expired on January 28, 2004. The fair value of this option was $1.5 million on January 3, 2004 and is reflected as

a gain in Other-net in the Consolidated Statements of Operations. The Company will record an additional $0.4 million gain on the termination of this option in 2004.

The counterparties to these interest rate and currency financial instruments are major international financial institutions. The Company is exposed to credit risk for net exchanges under these agreements, but not for the notional amounts. The Company considers the risk of default to be remote.

The carrying values and fair values of the Company's financial instruments at January 3, 2004 and December 28, 2002 follow:

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Millions of Dollars, (asset) liability)			
Long-term debt, including current portion	$666.1	$680.9	$576.9	$595.0
Currency and interest rate swaps	26.1	26.1	(5.1)	(5.1)
Currency options	(3.1)	(3.1)	(1.9)	(1.9)
Total financial instruments	$689.1	$703.9	$569.9	$588.0

Generally, the carrying value of the debt related financial instruments is included in the Consolidated Balance Sheet in long-term debt. The fair values of long-term debt are estimated using discounted cash flow analysis, based on the Company's marginal borrowing rates. The fair values of foreign currency and interest rate swap agreements are based on current settlement values. The carrying amount of cash equivalents and short-term borrowings approximates fair value.

K. CAPITAL STOCK

Weighted-Average Shares Outstanding

Weighted-average shares outstanding used to calculate basic and diluted earnings per share follows:

	2003	2002	2001
Basic earnings per share- weighted-average shares outstanding	84,143,124	86,452,974	85,761,275
Dilutive effect of stock options and awards	695,885	1,793,381	1,706,074
Diluted earnings per share- weighted-average shares outstanding	84,839,009	88,246,355	87,467,349

Common Stock Share Activity

Common stock share activity for 2003, 2002 and 2001 was as follows:

	2003	2002	2001
Outstanding, beginning of year	86,835,117	84,658,747	85,188,252
Issued from treasury	2,465,551	2,181,151	1,170,480
Returned to treasury	(3,077)	(4,781)	(1,699,985)
Equity Hedge Termination	(8,020,770)	—	—
Outstanding, end of year	81,276,821	86,835,117	84,658,747

Common Stock Equity Hedge

The Company previously entered into equity hedges, in the form of equity forwards on Stanley common shares, to offset the dilutive effect of in-the-money stock options on earnings per share and to reduce potential cash outflow for the repurchase of the Company's stock to offset stock option

exercises. Under the equity hedge contracts, when the price of Stanley stock appreciated since the last quarterly interim settlement, the Company received Stanley common shares from the counterparties. When the price of Stanley stock depreciated since the last quarterly interim settlement, the Company delivered Stanley common stock from treasury shares to the counterparties. Interim quarterly settlements were in shares of common stock, not cash, and were accounted for within equity. As of December 28, 2002, the equity hedge contracts had a $213 million notional value with 6.1 million underlying shares. In April 2003, the Company settled $100 million of the contracts through a cash repurchase of 3.9 million underlying shares at that time. In June 2003, the remaining $113 million in Stanley common stock equity hedge forward contracts were modified to full physical settlement contracts with a fixed notional principal of $113 million and 4.1 million of underlying shares as discussed in Note I Long-term Debt and Financing Arrangements.

Exclusive of final settlement activity in 2003, aggregate annual settlement activity under the equity hedge was as follows: 1,896,482 shares of common stock with a market value of $47.2 million ($66.0 million book value) delivered in 2003, 1,338,708 shares of common stock with a market value of $46.6 million ($41.6 million book value) delivered in 2002 and 1,432,264 shares of common stock with a market and book value of $67.0 million received in 2001. This annual settlement activity is reflected as issued from treasury in the table of common stock share activity above.

Common Stock Reserved

Common stock shares reserved for issuance under various employee and director stock plans at January 3, 2004 and December 28, 2002 follows:

	2003	2002
Employee Stock Purchase Plan	3,627,557	3,677,300
Stock-based compensation plans	17,639,114	19,022,666
Total	21,266,671	22,699,966

Preferred Stock Purchase Rights

Each outstanding share of common stock has one half of a share purchase right. Each purchase right may be exercised to purchase one two-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of $220.00, subject to adjustment. The rights, which do not have voting rights, expire on March 10, 2006, and may be redeemed by the Company at a price of $0.01 per right at any time prior to the tenth day following the public announcement that a person has acquired beneficial ownership of 10% or more of the outstanding shares of common stock.

In the event that the Company is acquired in a merger or other business combination transaction, provision shall be made so that each holder of a right (other than a holder who is a 10%-or-more shareowner) shall have the right to receive, upon exercise thereof, that number of shares of common stock of the surviving Company having a market value equal to two times the exercise price of the right. Similarly, if anyone becomes the beneficial owner of more than 10% of the then outstanding shares of common stock (except pursuant to an offer for all outstanding shares of common stock which the independent directors have deemed to be fair and in the best interest of the Company), provision will be made so that each holder of a right (other than a holder who is a 10%-or-more shareowner) shall thereafter have the right to receive, upon exercise thereof, common stock (or, in certain circumstances, cash, property or other securities of the Company) having a market value equal to two times the exercise price of the right. At January 3, 2004 there were 40,638,411 outstanding rights. There are 250,000 shares of Series A Junior Participating Preferred Stock reserved for issuance in connection with the rights.

Stock-Based Compensation Plans

The Company has stock-based compensation plans for salaried employees and non-employee directors of the Company and its affiliates. The plans provide for discretionary grants of stock options, restricted stock shares and other stock-based awards. Stock options are granted at the market price of

the Company's stock on the date of grant and have a ten-year term. Generally, stock option grants vest ratably between one and five years from the date of grant.

Stock option amounts and weighted-average exercise prices follows:

	2003		2002		2001	
	Options	Price	Options	Price	Options	Price
Outstanding, beginning of year	11,009,696	$30.06	9,855,884	$29.17	9,989,441	$27.19
Granted	1,238,442	29.09	1,944,250	32.91	1,967,352	38.30
Exercised	(159,521)	22.35	(593,188)	24.72	(833,529)	25.19
Forfeited	(1,093,332)	34.30	(197,250)	29.65	(1,267,380)	30.38
Outstanding, end of year	10,995,285	$30.14	11,009,696	$30.06	9,855,884	$29.17
Exercisable, end of year	5,375,022	$27.09	7,326,094	$27.31	6,382,194	$27.71

Outstanding and exercisable stock option information at January 3, 2004 follows:

Outstanding Exercisable Stock Options				Exercisable Stock Options	
Exercise Price Ranges	Options	Weighted-average Remaining Contractal Life	Weighted-average Exercise Price	Options	Weighted-average Exercise Price
$19.00 - $25.00	2,555,914	6.5	$ 21.82	2,153,414	$ 21.63
$25.01 - $35.00	6,227,013	6.9	$ 29.90	2,831,500	$ 28.88
$35.01 - $56.00	2,212,358	6.9	$ 40.45	390,108	$ 44.27
	10,995,285	6.8	$ 30.14	5,375,022	$ 27.09

Employee Stock Purchase Plan

The Employee Stock Purchase Plan enables substantially all employees in the United States, Canada and Belgium to subscribe at any time to purchase shares of common stock on a monthly basis at the lower of 85% of the fair market value of the shares on the first day of the plan year ($25.41 per share for fiscal year 2003 purchases) or

85% of the fair market value of the shares on the last business day of each month. A maximum of 6,000,000 shares are authorized for subscription. During 2003, 2002 and 2001 shares totaling 49,743, 119,853, and 273,784, respectively, were issued under the plan at average prices of $23.41, $31.42 and $17.32 per share, respectively.

Long-Term Stock Incentive Plan

The Long-Term Stock Incentive Plan (LTSIP) provides for the granting of awards to senior management employees for achieving Company performance measures. The Plan is administered by the Compensation and Organization Committee of the Board of Directors consisting of non-employee directors. Awards are generally payable in shares of common stock as directed by the Committee. Shares totaling 45,231, 19,949 and 15,900 were earned in 2003, 2002 and, 2001, respectively. LTSIP expense was $1.1 million in 2003, $0.5 million in 2002 and $0.5 million in 2001.

L. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss at the end of each fiscal year was as follows:

	2003	2002 (Millions of Dollars)	2001
Currency translation adjustment	$(76.8)	$(119.2)	$(136.3)
Minimum pension liability	(9.0)	(5.2)	(2.9)
Cash flow hedge effectiveness	1.6	1.0	0.3
Accumulated other comprehensive loss	$(84.2)	$(123.4)	$(138.9)

M. EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan (ESOP)

Substantially all U.S. employees may contribute from 1% to 15% of their salary to a tax deferred savings plan. Employees elect where to invest their own contributions. The Company contributes an amount equal to one-half of the employee contribution up to the first 7% of their salary, all of which is invested in the Company's common stock. The amounts in 2003, 2002 and 2001 under this matching arrangement were $5.3 million, $5.7 million and $5.8 million, respectively.

The Company also provides a non-contributory benefit for U.S. salaried and non-union hourly employees, called the Cornerstone plan. Under this benefit arrangement, the Company contributes amounts ranging from 3% to 9% of employee compensation based on age. Approximately 2,000 U.S. employees receive an additional average 1.5% contribution actuarially designed to replace the pension benefits curtailed in 2001. Contributions under the Cornerstone plan were $13.9 million in 2003, $12.8 million in 2002 and $12.7 million in 2001. Assets of the Cornerstone defined contribution plan are invested in equity securities and bonds.

Shares of the Company's common stock held by the ESOP were purchased with the proceeds of external borrowings in the 1980's and borrowings from the Company in 1991. The external ESOP borrowings are guaranteed by the Company and are included in long-term debt. Shareowners' equity reflects a reduction for the internal and external borrowings.

Unallocated shares are released from the trust based on current period debt principal and interest payments as a percentage of total future debt principal and interest payments. These released shares along with allocated dividends, dividends on unallocated shares acquired with the 1991 loan, and shares purchased on the open market are used to fund employee contributions, employer contributions and dividends earned on participant account balances. Dividends on unallocated shares acquired with the 1989 and prior loan are used only for debt service.

Net ESOP activity recognized is based on total debt service and share purchase requirements less employee contributions and dividends on ESOP shares. The Company's net ESOP activity resulted in expense of $9.2 million in 2003, $0.1 million in 2002, and $0.1 million in 2001. ESOP expense is affected by the market value of Stanley common stock on the monthly dates when shares are released. In 2003, the market value of shares released averaged $29.30 per share. ESOP expense may vary in the future in the event the market value of the shares increase or decrease.

Dividends on ESOP shares, which are charged to shareowners' equity as declared, were $12.4 million in 2003, $12.6 million in 2002 and $13.6 million in 2001. Interest costs incurred by the ESOP on external debt for 2003, 2002 and 2001 were $0.9 million, $1.2 million and $1.5 million, respectively. Both allocated and unallocated ESOP shares are treated as outstanding for purposes of computing earnings per share. As of January 3, 2004, the number of ESOP shares allocated to participant accounts was 5,137,215 and the number of unallocated shares was 6,711,139. The fair value of the unallocated ESOP shares at January 3, 2004 was $248.6 million.

Pension and Other Benefit Plans

The Company sponsors pension plans covering most domestic hourly and executive employees, and approximately 2,200 foreign employees. Benefits are generally based on salary and years of service, except for collective bargaining employees whose benefits are based on a stated amount for each year of service.

In 2001, the Company curtailed the U.S. salaried and non-union hourly plan with respect to eliminating the impact from future salary increases on benefits, resulting in a pre-tax curtailment gain of $29.3 million. The Company recorded an $18.4 million pre-tax gain associated with final settlement of these pension obligations in June 2002, which reflects a reduction for excise taxes and other expenses from the $37.2 million actuarially determined settlement gain reported in the pension expense table below.

The Company contributes to multi-employer plans for certain collective bargaining U.S. employees. In addition, various other defined contribution plans are sponsored worldwide.

	2003	2002 (Millions of Dollars)	2001
Multi-employer plan expense	$1.8	$0.5	$0.5
Defined contribution plan expense	$4.0	$4.6	$3.3

The components of net periodic pension cost are as follows:

	U.S. Plans			Non-U.S. Plans		
	2003	2002	2001 (Millions of Dollars)	2003	2002	2001
Service cost	$ 2.3	$ 3.0	$ 2.6	$ 5.2	$ 5.1	$ 4.7
Interest cost	3.0	8.4	19.4	9.3	8.2	7.5
Expected return on plan assets	(1.0)	(15.0)	(34.0)	(12.2)	(11.0)	(10.9)
Amortization of transition asset	—	(0.3)	(0.6)	(0.2)	(0.2)	(0.1)
Amortization of prior service cost	1.7	1.0	1.0	0.6	0.5	0.3
Actuarial (gain) loss	2.6	(1.1)	(3.7)	—	(0.2)	—
Settlement / Curtailment gain	—	(37.2)	(29.3)	—	0.2	—
Net periodic pension (income) expense	$ 8.6	$(41.2)	$(44.6)	$ 2.7	$ 2.6	$ 1.5
Increase in minimum pension liability included in other comprehensive income	$ 3.3	$ 2.3	$ 1.8	$ 0.5	$ —	$ —

The Company provides medical and dental benefits for certain retired employees in the United States. In addition, U.S. employees who retire from active service are eligible for life insurance benefits. Net periodic postretirement benefit expense was $2.0 million in 2003, $1.5 million in 2002 and $1.8 million in 2001.

The Company generally uses a November 30 measurement date for its pension plans with plan assets and a December 31 measurement date for other plans. The changes in the pension and other postretirement benefit obligations, fair value of plan assets as well as amounts recognized in the Consolidated Balance Sheets, are shown below:

	Pension Benefits				Other Benefits	
	U.S. Plans		Non-U.S. Plans		U.S. Plans	
	2003	2002	2003	2002	2003	2002
	(Millions of Dollars)					
Change in benefit obligation:						
Benefit obligation at end of prior year	$ 44.9	$ 249.5	$144.1	$130.3	$ 17.3	$ 17.9
Service cost	2.3	3.0	5.2	5.1	1.0	0.4
Interest cost	3.0	8.4	9.3	8.2	1.0	1.1
Settlements	—	(187.0)	—	0.1	—	—
Change in discount rate	3.1	2.0	12.9	(2.1)	0.7	0.7
Actuarial (gain) loss	0.2	39.0	(0.1)	(2.4)	1.3	0.2
Plan amendments	1.6	0.1	—	0.9	(1.5)	(0.8)
Foreign currency exchange rates	—	—	20.8	12.3	—	—
Participant contributions	—	—	0.7	0.7	—	—
Acquisitions	—	12.6	—	0.2	—	—
Benefits paid	(3.1)	(82.7)	(10.2)	(9.2)	(2.7)	(2.2)
Benefit obligation at end of year	$ 52.0	$ 44.9	$182.7	$144.1	$ 17.1	$ 17.3
Change in plan assets:						
Fair value of plan assets at end of prior year	$ 14.0	$ 396.9	$121.6	$119.6	$ —	$ —
Actual return on plan assets	0.2	(6.8)	8.6	(11.4)	—	—
Participant contributions	—	—	0.7	0.7	—	—
Employer contribution	2.2	1.3	15.9	11.3	2.7	2.2
Foreign currency exchange rate changes	—	—	17.3	10.6	—	—
Settlements	—	(301.8)	—	—	—	—
Acquisitions	—	7.1	—	—	—	—
Benefits paid	(3.1)	(82.7)	(10.2)	(9.2)	(2.7)	(2.2)
Fair value of plan assets at end of plan year	$ 13.3	$ 14.0	$153.9	$121.6	$ —	$ —
Funded status-assets (less than) in excess of benefit obligation	$(38.7)	$ (30.9)	$(28.8)	$(22.5)	$(17.1)	$(17.3)
Unrecognized prior service cost	7.5	6.2	5.3	5.4	(1.9)	(0.6)
Unrecognized net actuarial loss (gain)	10.1	10.1	62.8	40.0	4.5	2.7
Unrecognized net (asset) liability at transition	—	—	0.3	0.1	—	—
Net amount recognized	$(21.1)	$ (14.6)	$ 39.6	$ 23.0	$(14.5)	$(15.2)
Amounts recognized in the Consolidated Balance Sheet:						
Prepaid benefit cost	$ 3.9	$ 5.8	$ 53.5	$ 35.6	$ —	$ —
Accrued benefit liability	(41.0)	(28.7)	(14.4)	(13.0)	(14.5)	(15.2)
Intangible asset	7.5	3.1	—	0.4	—	—
Accumulated other comprehensive loss	8.5	5.2	0.5	—	—	—
Net amount recognized	$(21.1)	$ (14.6)	$ 39.6	$ 23.0	$(14.5)	$(15.2)

The accumulated benefit obligation for all defined benefit pension plans was $212.0 million at January 3, 2004 and $171.7 million at December 28, 2002.

Information regarding pension plans in which accumulated benefit obligations exceed plan assets:

	U.S. Plans		Non-U.S. Plans	
	2003	2002	2003	2002
	(Millions of Dollars)			
Projected benefit obligation	$52.0	$39.9	$41.3	$34.8
Accumulated benefit obligation	$50.3	$36.0	$31.6	$28.6
Fair value of plan assets	$13.3	$ 7.1	$23.6	$18.2

Information regarding pension plans in which projected benefit obligations (inclusive of anticipated future compensation increases) exceed plan assets:

	U.S. Plans		Non-U.S. Plans	
	2003	2002	2003	2002
	(Millions of Dollars)			
Projected benefit obligation	$52.0	$39.9	$182.7	$144.1
Accumulated benefit obligation	$50.3	$36.0	$161.7	$130.7
Fair value of plan assets	$13.3	$ 7.1	$153.9	$120.4

The major assumptions used in valuing pension and post-retirement plan obligations and net cost were as follows:

	Pension Benefits				Other Benefits	
	U.S. Plans		Non-U.S. Plans		U.S. Plans	
	2003	2002	2003	2002	2003	2002
Weighted average assumptions used to determine benefit obligations at year end:						
Discount rate	6.0%	6.5%	5.5%	6.0%	6.0%	6.5%
Rate of compensation increase	6.0%	4.0%	3.5%	3.25%	—	—
Weighted average assumptions used to determine net periodic benefit cost:						
Discount rate	6.5%	7.0%	6.0%	6.0%	6.5%	7.0%
Rate of compensation increase	4.0%	4.0%	3.25%	3.5%	—	—
Expected return on plan assets	7.75%	8.75%	7.75%	7.75%	—	—

The expected long-term rate of return on plan assets is determined considering the returns projected for the various asset classes and the relative weighting for each asset class as reflected in the target asset allocation below. In addition the Company considers historical performance and the opinions of outside actuaries and other professionals in developing benchmark returns.

Pension Plan Assets

Plan assets are invested in equity securities, bonds and other fixed income securities, real estate, money market instruments and insurance contracts. The Company's weighted-average worldwide actual asset allocations at January 3, 2004 and December 28, 2002 by asset category are as follows:

	Plan Assets		Target
Asset Category	2003	2002	Allocation
Equity securities	59%	67%	50-70%
Fixed income securities	39%	31%	30-50%
Real estate	0%	0%	0-5%
Other	2%	2%	0-10%
Total	100%	100%	100%

The Company's investment strategy for pension plan assets includes diversification to minimize interest and market risks, and generally does not involve the use of derivative financial instruments.

Plan assets are rebalanced periodically to maintain target asset allocations. Maturities of investments are not necessarily related to the timing of expected future benefit payments, but adequate liquidity to make immediate and medium term benefit payments is ensured.

Contributions

The Company's funding policy for its defined benefit plans is to contribute amounts determined annually on an actuarial basis to provide for current and future benefits in accordance with federal law and other regulations. The Company expects to contribute approximately $10 million to its pension plans and $3 million to its other postretirement benefit plan in 2004.

Health Care Cost Trends and Medicare Prescription Act of 2003 Impact

The weighted average annual assumed rate of increase in the per-capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 11.0% for 2003, reducing gradually to 5.5% by 2013 and remaining at that level thereafter. A one percentage point change in the assumed health care cost trend rate would have the following effects as of January 3, 2004:

	1 % Point Increase	1 % Point Decrease
	(Millions of Dollars)	
Effect on the net periodic postretirement benefit cost	$ 0.1	$ (0.1)
Effect on the postretirement benefit obligation	0.6	(0.6)

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act introduced a plan sponsor subsidy based on a percentage of a beneficiary's annual prescription drug benefits, within defined limits, and the opportuity for a retiree to obtain presciption drug benefits under Medicare.

Certain employees are covered under legacy benefit provisions that include prescription drug coverage for Medicare-eligible retirees. In order to coordinate this coverage with the Act, the Company plans to complete a strategic review of its postretirement plans during the two year transitional period provided in the Act. In accordance with FASB Staff Position FAS 106-1, the benefit obligation and net periodic benefit cost do not reflect any potential effects of the Act. Since the Company has already taken steps to limit its postretirement medical benefits, any reductions in postretirement benefit costs resulting from the Act are not expected to be material.

N. OTHER COSTS AND EXPENSES

Other-net is primarily comprised of intangibles amortization expense, gains and losses on asset dispostions, currency impact, environmental expense, results from unconsolidated entities, and net expenses related to the Mac Tools extended financing programs, primarily financing receivable losses and interest income. Other-net in 2003 includes $9.5 million in charges related to the exit of the Mac Tools retail channel. Other-net in 2002 includes a nonrecurring pension settlement gain of $18.4 million and $11.3 million in income from an environmental settlement with an insurance carrier. There was no goodwill amortization expense in 2003 and 2002, due to the adoption of SFAS No. 142, while goodwill amortization expense was $7.6 million in 2001. Other-net in 2001 includes a nonrecurring pension curtailment gain of $29.3 million.

Advertising costs, classified in SG&A expenses, are expensed as incurred and amounted to $24.1 million in 2003, $21.6 million in 2002 and $23.8 million in 2001. Cooperative advertising expense reported as a deduction in Net sales was $23.3 million in 2003, $18.7 million in 2002 and $14.6 million in 2001.

Research and development costs were $10.1 million, $8.7 million and $11.8 million for the fiscal years 2003, 2002 and 2001, respectively.

O. RESTRUCTURING, ASSET IMPAIRMENTS AND OTHER CHARGES

The Company announced restructuring plans ("Operation 15") in April 2003 to improve the profitability of certain businesses. The restructuring was completed in 2003 and included a workforce

reduction of over 1,000 people, the exit from the Mac Tools retail channel ("MacDirect"), and the impairment of certain fixed assets and inventories related to the future consolidation of two distribution facilities. In 2003, the Company recorded $50.1 million restructuring and asset impairment charges for the Operation 15 initiative. These charges consisted of $12.5 million for severance, $27.0 million of asset impairments and $10.6 million of other exit costs related to the exit from the Company's MacDirect retail channel. The asset impairments generally relate to assets which are idle mainly as a result of the restructuring initiatives and accordingly their book value has been written off. The Company also recorded $66.3 million charges for other exit costs and CEO retirement costs. These charges include $12.6 million in Cost of sales for the planned closure of a U.S. distribution facility, $7.6 million in SG&A for compensation and benefit costs associated with the CEO's retirement, $3.5 million in other SG&A charges, and $42.6 million in costs related to the Company's exit from the MacDirect retail channel. The Company anticipates utilizing the remaining reserves by the end of 2004.

In the first quarter of 2003, the Company recorded $3.1 million in restructuring reserves for new initiatives, mainly in the Tools segment, pertaining to the further reduction of its cost structure, primarily for severance-related obligations.

In 2001, the Company undertook initiatives to reduce its cost structure and executed several business repositionings intended to improve its competitiveness. These actions resulted in the closure of 13 facilities and a net employment reduction of approximately 2,200 production, selling and administrative people. As a result, the Company recorded $72.4 million of restructuring and asset impairment charges. The charges for asset impairments were primarily related to manufacturing and other assets that were retired and disposed of as a result of manufacturing facility closures.

In June 2002 and September 2001, $8.4 million and $4.8 million in severance charges were recorded, respectively, as the Company continued to rationalize its headcount to provide further SG&A expense reductions.

These charges were classified within SG&A expense in the Consolidated Statements of Operations. These actions resulted in the termination of approximately 200 selling and administrative employees in each year. As of December 28, 2002, no accrual remained as all of the severance has been expended.

At January 3, 2004, the restructuring and asset impairment reserve balance was $16.1 million, which the Company expects to be fully expended by the end of third quarter 2004. A summary of the Company's restructuring reserves for the years ended December 28, 2002 to January 3, 2004 is as follows (millions of dollars):

Initiatives	2002	Charges	Usage	2003
Operation 15				
Severance	$ —	$12.5	$ (9.4)	$ 3.1
Asset impairments	—	27.0	(18.3)	8.7
Other	—	10.6	(7.8)	2.8
First quarter 2003				
Severance	—	3.1	(3.1)	—
Prior to 2003				
Severance	5.4	—	(5.4)	—
Other	3.3	—	(1.8)	1.5
Total	$8.7	$53.2	$(45.8)	$16.1

As of January 3, 2004, 86 manufacturing and distribution facilities have been closed as a result of the restructuring initiatives since 1997. In 2003, 2002 and 2001, approximately 1,100, 1,000 and 2,100 employees had been terminated as a result of restructuring initiatives, respectively. Severance payments of $17.9 million, $26.0 million and $41.7 million and other exit payments of $9.6 million, $4.4 million and $3.4 million were made in 2003, 2002 and 2001, respectively. Write-offs of impaired assets were $18.3 million, $5.8 million and $7.9 million in 2003, 2002 and 2001, respectively.

P. BUSINESS SEGMENT AND GEOGRAPHIC AREA

The Company operates worldwide in two reportable business segments: Tools and Doors. The Tools segment includes carpenters, mechanics, pneumatic and hydraulic tools as well as tool sets. The Doors segment includes automatic doors, as well as closet doors and systems, home decor, door locking systems, commercial and consumer hardware, security access control systems and patient monitoring devices. The information below excludes the residential entry door business, which is classified as discontinued operations as disclosed in Note U Discontinued Operations, unless otherwise noted.

BUSINESS SEGMENTS

	2003	2002 (Millions of Dollars)	2001
Net Sales			
Tools	$1,975.2	$1,954.6	$2,008.0
Doors	702.9	429.0	385.8
Consolidated	$2,678.1	$2,383.6	$2,393.8
Operating Profit			
Tools	$ 163.5	$ 209.2	$ 266.9
Doors	91.5	55.0	41.8
Consolidated	$ 255.0	$ 264.2	$ 308.7
Restructuring charges and asset impairments	(53.2)	—	(72.2)
Interest income	5.9	4.0	6.7
Interest expense	(34.2)	(28.4)	(32.3)
Other-net	(40.5)	9.0	8.8
Earnings from Continuing Operations Before Income Taxes	$ 133.0	$ 248.8	$ 219.7
Segment Assets			
Tools	$1,480.3	$1,574.9	$1,624.0
Doors	681.1	657.4	254.1
	$2,161.4	$2,232.3	$1,878.1
Discontinued operations	33.0	41.8	58.4
Corporate assets	229.4	144.1	119.2
Consolidated	$2,423.8	$2,418.2	$2,055.7
Capital and Software Expenditures			
Tools	$ 29.4	$ 42.1	$ 59.9
Doors	8.5	5.6	10.0
Discontinued Operations	1.5	4.6	3.2
Consolidated	$ 39.4	$ 52.3	$ 73.1
Depreciation and Amortization			
Tools	$ 62.0	$ 60.2	$ 68.4
Doors	22.1	8.8	9.8
Discontinued Operations	2.4	2.2	3.6
Consolidated	$ 86.5	$ 71.2	$ 81.8

The Company assesses the performance of its reportable business segments using operating profit, which follows the same accounting policies as those described in Note A Significant Accounting Policies. Operating profit excludes interest income, interest expense, other-net, and income tax expense. In addition, operating profit excludes restructuring charges and asset impairments. Corporate and shared expenses are allocated to each segment. Sales between segments are not material. Segment assets primarily include accounts receivable, inventory, other current assets, property, plant and

equipment, intangible assets and other miscellaneous assets. Corporate assets and unallocated assets are cash, deferred income taxes and certain other assets. Geographic net sales and long-lived assets are attributed to the geographic regions based on the geographic location of each Stanley subsidiary.

Sales to The Home Depot were approximately 15%, 15% and 14% of consolidated net sales in 2003, 2002 and 2001, respectively, excluding the entry door business which is classified as a discontinued operation as discussed in Note U Discontinued Operations. Inclusive of the entry door business discontinued operation, sales to The Home Depot represented 19%, 21%, and 20% of consolidated net sales in 2003, 2002 and 2001, respectively. For 2003, 2002 and 2001 net sales to this one customer amounted to 19%, 29% and 26% of segment net sales, respectively, for the Doors segment and 13%, 13% and 12%, respectively for the Tools segment.

GEOGRAPHIC AREAS

	2003	2002	2001
		(Millions of Dollars)	
Net Sales			
United States	$1,847.7	$1,632.3	$1,672.4
Other Americas	197.0	185.3	167.6
Europe	515.2	472.1	456.7
Asia	118.2	93.9	97.1
Consolidated	$2,678.1	$2,383.6	$2,393.8
Long-Lived Assets			
United States	$ 826.9	$ 858.7	$ 572.6
Other Americas	30.7	31.1	27.8
Europe	305.4	278.1	254.1
Asia	60.1	39.1	38.2
Consolidated	$1,223.1	$1,207.0	$ 892.7

Q. INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities as of the end of each fiscal year are as follows:

	2003	2002
	(Millions of Dollars)	
Deferred tax liabilities:		
Depreciation	$ 88.3	$ 80.6
Amortization of Intangibles	33.1	—
Other	20.7	11.6
Total deferred tax liabilities	142.1	92.2
Deferred tax assets:		
Employee benefit plans	41.9	27.3
Doubtful accounts	14.9	9.5
Inventories	8.1	14.6
Amortization of intangibles	—	23.6
Accruals	8.4	12.0
Restructuring charges	9.1	11.7
Foreign and state operating loss carryforwards	21.4	15.2
Other	1.6	9.3
Total Deferred Tax Assets	105.4	123.2
Net Deferred Tax Liabilities/(Assets) before Valuation Allowance	36.7	(31.0)
Valuation allowance	21.4	15.2
Net Deferred Tax Liabilities/ (Assets) after Valuation Allowance	$ 58.1	$ (15.8)

Valuation allowances reduced the deferred tax asset attributable to foreign and state loss carryforwards to the amount that, based upon all available evidence, is more likely than not to be realized. Reversal of the valuation allowance is contingent upon the recognition of future taxable income and capital gains in specific foreign countries and specific states, or changes in circumstances which cause the recognition of the benefits to become more likely than not. The foreign and state loss carryforwards expire in various years beginning in 2004. The overall change in net deferred taxes is primarily attributable to the non-deductibility of amortization associated with the acquisition of Best.

The classification of deferred taxes as of January 3, 2004 and December 28, 2002 is as follows:

	2003		2002	
	Deferred Tax Asset	Deferred Tax Liability	Deferred Tax Asset	Deferred Tax Liability
		(Millions of Dollars)		
Current	$(24.8)	$ 1.2	$ (22.7)	$ 1.5
Non-current	(59.2)	140.9	(85.3)	90.7
Total	$(84.0)	$142.1	$(108.0)	$92.2

Income tax expense (benefit) attributable to continuing operations consisted of the following:

	2003	2002	2001
		(Millions of Dollars)	
Current:			
Federal	$(13.9)	$ 92.0	$18.6
Foreign	27.5	11.7	19.5
State	3.7	9.4	5.0
Total current	17.3	113.1	43.1
Deferred :			
Federal	15.9	(36.0)	33.4
Foreign	3.3	1.4	(7.0)
State	(0.2)	—	2.4
Total deferred	19.0	(34.6)	28.8
Total	$ 36.3	$ 78.5	$71.9

Income taxes paid during 2003, 2002 and 2001 were $11.2 million, (net of a $22.1 million U.S. Federal refund), $120.0 million and $41.4 million, respectively. During 2003, the Company had tax holidays with Thailand and China. Tax holidays resulted in a $2.5 million reduction in tax expense in 2003, $2.2 million in 2002, and $4.2 million in 2001. The tax holiday in China is in place through 2004 and the tax holiday in Thailand is in place until 2010.

The reconciliation of federal income tax at the statutory federal rate to income tax at the effective rate for continuing operations is as follows:

	2003	2002	2001
		(Millions of Dollars)	
Tax at statutory rate	$ 46.6	$ 87.2	$ 76.8
State income taxes, net of federal benefits	2.3	6.0	4.8
Difference between foreign and federal income tax	(15.6)	(14.3)	(15.9)
FSC/ETI benefit	(2.9)	(2.7)	(2.3)
Branch activity	2.5	0.6	—
Tax accrual reserve	0.9	(5.6)	3.9

Non-deductible excise tax	—	5.9	—
Other-net	2.5	1.4	4.6
Income taxes	$ 36.3	$ 78.5	$ 71.9

The components of earnings from continuing operations before income taxes consisted of the following:

	2003	2002 (Millions of Dollars)	2001
United States	$ 10.2	$162.3	$176.9
Foreign	122.8	86.5	42.8
Total pre-tax earnings	$133.0	$248.8	$219.7

The Company's future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where the statutory rates are lower. The Company is subject to the examinations of its income tax returns by the Internal Revenue Service and other tax authorities. The Company evaluates the likelihood of unfavorable adjustments arising from the examinations and believes adequate provisions have been made in the income tax provision. Undistributed foreign earnings of $214.1 million at January 3, 2004 are considered to be invested indefinitely or will be

remitted substantially free of additional tax. Accordingly, no provision has been made for taxes that might be payable upon remittance of such earnings, nor is it practicable to determine the amount of this liability.

R. COMMITMENTS

The Company has noncancelable operating lease agreements, principally related to facilities, vehicles, machinery and equipment. Minimum payments have not been reduced by minimum sublease rentals of $8.4 million due in the future under noncancelable subleases. In addition, the Company is a party to synthetic leasing programs which qualify as operating leases, for two of its major distribution centers. Rental expense, net of sublease income, for operating leases was $45.2 million in 2003, $36.4 million in 2002 and $36.8 million in 2001.

The Company has $34.3 million in commitments for outsourcing arrangements, primarily related to information systems and telecommunications and $20.7 million of cash funding commitments pertaining to the Company's U.S. Employee Stock Ownership Plan (ESOP). Included in material purchases is $2.7 million related to the entry door business, classified as a discontinued operation as disclosed in Note U Discontinued Operations, which will be assumed by the buyer, Masonite.

The following table includes the future commitments due for lease obligations, materal purchases and outsourcing arrangements.

	Total	2004	2005	2006 (Millions of Dollars)	2007	2008	Thereafter
Operating lease obligations	$ 82.1	$20.5	$16.4	$12.7	$10.2	$ 8.5	$13.8
Material purchases	13.6	9.2	2.2	2.2	—	—	—
Outsourcing and other	55.0	19.9	17.3	12.5	2.7	2.6	—
Total	$150.7	$49.6	$35.9	$27.4	$12.9	$11.1	$13.8

The Company has numerous assets, predominantly vehicles and equipment, under a one-year term renewable U.S. master personal property lease. Residual value obligations, which approximate the fair value of the related assets, under this master lease were $35.0 million at January 3, 2004. The U.S. master personal property lease obligations are not reflected in the future minimum lease payments since the initial and remaining term does not exceed one year. The Company routinely exercises various lease renewal options and from time to time purchases leased assets for fair value at the end of lease terms.

The Company is party to synthetic leasing programs for two of its major distribution centers. The programs qualify as operating leases for accounting purposes, where only the monthly lease amount is recorded in the income statement and the liability and value of underlying assets are off-balance sheet. As of January 3, 2004, the estimated fair values of assets and remaining obligations for these two properties were $37 million and $28 million, respectively.

S. GUARANTEES

	Term	Maximum Potential Payment (Millions of Dollars)	Carrying Amount of Liability
Financial guarantees:			
Guarantees on the residual values of leased properties	1 year	$ 62.9	$ —
Standby letters of credit	Generally 1 year	25.7	—
Guarantee on the external Employee Stock Ownership Plan borrowings	Through 2009	12.9	12.9
Commercial customer financing arrangements	Up to 5 years	1.3	—
Government guarantees on employees	3 years from hire date	0.1	—
Guarantee on lease in Belgium	Through 2012	0.6	—
Guarantees on leases for divested business which are subleased	Up to 50 months	0.7	0.2
Balance January 3, 2004		$104.2	$13.1

The Company has sold various businesses and properties over many years and provided standard indemnification to the purchasers with respect to any unknown liabilities, such as environmental, which may arise in the future that are attributable to the time of Stanley's ownership. The Company has not accrued any liabilities associated with these general indemnifications since there are no identified exposures.

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 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 changes in the carrying amount of product and service warranties for the year ended January 3, 2004 and December 28, 2002 are as follows:

	2003 (Millions of Dollars)	2002
Beginning Balance	$ 5.7	$ 6.0
Warranties and guarantees issued	13.7	11.4
Warranty payments	(12.2)	(11.6)
Adjustments to provision	0.1	(0.1)
Ending Balance	$ 7.3	$ 5.7

T. CONTINGENCIES

The Company is involved in various legal proceedings relating to environmental issues, employment, product liability and workers' compensation claims and other matters. The Company periodically reviews the status of these proceedings with both inside and outside counsel, as well as an actuary for risk insurance. Management believes that the ultimate disposition of these matters will not have a material adverse effect on operations or financial condition taken as a whole.

The Company recognizes liabilities for contingent exposures when analysis indicates it is both probable that an asset has been impaired or that a liability has been incurred and the amount of impairment or loss can reasonably be estimated. When a range of probable loss can be estimated, the Company accrues the most likely amount. In the event that no amount in the range of probable loss is considered most likely, the minimum loss in the range is accrued.

In the normal course of business, the Company is involved in various lawsuits and claims. In addition, the Company is a party to a number of proceedings before federal and state regulatory agencies relating to environmental remediation. Also, 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 ten active Superfund sites. Current laws potentially impose joint and several liability upon each PRP. In assessing its potential liability at these sites, the Company has considered the following: the solvency of the other PRPs, whether responsibility is being disputed, the terms of existing agreements, experience at similar sites, and the fact that the Company's volumetric contribution at these sites is relatively small.

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 January 3, 2004 and December 28, 2002, the Company had reserves of $11.5 million and $16.7 million, respectively, primarily for remediation activities associated with Company-owned properties as well as for Superfund sites, for losses that are probable and estimable. Of this amount, $2.8 million is classified as current and $8.7 million as long-term. The range of environmental remediation costs that is reasonably possible is $11.5 million to $35.5 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 policy.

The environmental liability for certain sites that have cash payments that are fixed or reliably determinable have been discounted using a rate in the range of 2.6% to 5.4%, depending on the timing of cash payments. The discounted and undiscounted amount of the liability relative to these sites is $6.4 million and $8.4 million, respectively, as of January 3, 2004 and $5.5 million and $7.7 million, respectively, as of December 28, 2002. The payments relative to these sites are expected to be $2.2 million in 2004, $0.7 million in 2005, $1.0 million in 2006, $0.3 million in 2007, $0.3 million in 2008 and $3.9 million thereafter.

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 certain exposures. Subject to the imprecision in estimating future contingent liability costs, the Company does not expect that any sum it may have to pay in connection with these matters in excess of the amounts recorded will have a materially adverse effect on its financial position, results of operations or liquidity.

As previously disclosed in the 2002 Annual Report, the Company's audited Consolidated Financial Statements for the year ended December 28, 2002 include $5.6 million, or 4¢ per fully diluted share, of accounting corrections related primarily to expense capitalization and depreciation in fiscal years 1999 through 2002. During the fourth quarter of 2003 the Securities and Exchange Commission issued a formal order of private investigation in connection with allegations regarding certain accounting matters. These allegations, which had previously been raised with the Company anonymously, were initially researched and evaluated by the Company's management, internal audit staff and independent auditors, and subsequently, further investigated by a second multinational accounting firm, all under the supervision of the audit committee of the Board of Directors. This resulted in the accounting corrections referred to above. The Company cooperated fully with the SEC prior to issuance of the formal order and continues to do so. Management, the Board of Directors and the Company's independent auditors concluded that such corrections were immaterial, both quantitatively and qualitatively, to the December 28, 2002 audited Consolidated Financial Statements and immaterial to the previously reported results of the prior years and quarters to which they relate.

U. DISCONTINUED OPERATIONS

On December 8, 2003, the Company entered into a definitive agreement to sell its residential entry door business to Masonite International Corporation. The sale transaction closed on March 2, 2004 and will result in an after-tax gain of approximately $100 million to be recognized in 2004. In accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the results of operations of the entry door business for the current and prior periods have been reported as discontinued operations. In addition the assets and liabilities of the business have been reclassified as held for sale in the Consolidated Balance Sheets.

The business manufactures and distributes steel and fiberglass entry doors and components, throughout North America. Operating results of the entry door business, which were formerly included in the Doors segment, are summarized as follows:

	2003	2002	2001
		(Millions of Dollars)	
Net sales	$182.2	$209.4	$212.9
Pretax earnings	17.7	23.7	17.0
Income taxes	6.5	9.0	6.5
Net earnings from discontinued operations	$ 11.2	$ 14.7	$ 10.5

The entry door business sales to The Home Depot amounted to 82% of net sales in 2003, 85% in 2002 and 80% in 2001.

Assets and liabilities of the entry door business as of January 3, 2004 and December 28, 2002 are as follows:

	2003	2002
	(Millions of Dollars)	
Accounts receivable	$ 5.7	$11.9
Inventories	6.9	6.1
Other current assets	1.0	3.1
Property, plant and equipment	19.4	20.7
Total assets	$33.0	$41.8
Accounts payable	22.9	21.4
Accured expenses	4.7	4.5
Other liabilities	1.6	2.0
Total liabilities	$29.2	$27.9

V. SUBSEQUENT EVENTS

On January 15, 2004 the Company completed the acquisition of Illinois-based Chicago Steel Tape Co. and certain related assets and affiliated companies that are collectively known as CST / Berger. CST / Berger is a leading designer and manufacturer of laser and optical leveling and measuring equipment. The Company financed the $62 million cash purchase with existing cash resources and credit facilities.

The Company acquired 95% of the common shares of Frisco Bay Industries Ltd. through a tender offer completed on March 9, 2004, and is now in the process of acquiring the remaining shares. Frisco Bay is a leading Canadian integrator of security solutions, with annual sales of approximately $40 million.

In 2004, the Company received more than 99% valid acceptances to its cash offer for the outstanding shares of Blick plc. The Company expects to complete the compulsory acquisition of all remaining outstanding Blick plc shares on or about the end of the first quarter. Blick plc is a leading U.K. integrator of security systems, communication and time management solutions to the commercial and industrial sectors with annual sales of around $120 million. Of the approximately $173 million purchase price, $151 million was financed with existing cash and credit facilities and the $22 million balance represents long-term notes payable which convert to demand notes after December 31, 2004.

In January 2004, the Company obtained a $150 million line of credit which expires in October 2004. The Company may elect to use this line of credit to provide liquidity to complete announced acquisitions or for other purposes.

On December 31, 2003, John M. Trani, Chairman and Chief Executive Officer, retired. Effective March 1, 2004, John F. Lundgren was elected Chairman and CEO.

In the third quarter of 2003, the Company announced that it had entered into a contract for a $30 million acquisition to be accompanied by marketing, sourcing and manufacturing cooperation. On March 1, 2004, the Company determined certain contingencies related to the transaction will not be resolved. Accordingly, the commitment has been rescinded.

On March 2, 2004, the Company completed the sale of its residential entry door business to Masonite International Corporation for $162 million in cash. The after-tax gain on the transaction of approximately $100 million will be recognized in the first quarter of 2004.

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(Millions of Dollars, except per share amounts)	Quarter				
2003 **	**First**	**Second**	**Third**	**Fourth**	**Year**
Net sales	$632.2	$652.6	$665.6	$727.7	$2,678.1
Gross profit	213.4	220.4	227.4	231.6	892.8
Selling, general and administrative expenses	167.8	169.0	143.5	157.5	637.8
Net earnings from continuing operations	$ 19.0	$ 9.3	$ 37.4	$ 31.0	$ 96.7
Net earnings from discontinued operations	0.2	3.1	4.3	3.6	11.2
Net earnings	$ 19.2	$ 12.4	$ 41.7	$ 34.6	$ 107.9
Basic earnings per common share:					
Continuing operations	$ 0.22	$ 0.11	$ 0.46	$ 0.38	$ 1.15
Discontinued operations	—	0.04	0.05	0.04	0.13
Total basic earnings per common share	$ 0.22	$ 0.14	$ 0.51	$ 0.43	$ 1.28
Diluted earnings per common share:					
From continuing operations	$ 0.22	$ 0.11	$ 0.46	$ 0.38	$ 1.14
From discontinued operations	—	0.04	0.05	0.04	0.13
Total diluted earnings per common share	$ 0.22	$ 0.14	$ 0.51	$ 0.42	$ 1.27

2002 **	**First**	**Second**	**Third**	**Fourth**	**Year**
Net sales	$572.5	$593.7	$603.1	$614.3	$2,383.6
Gross profit	207.8	211.8	194.5	175.8	789.9
Selling, general and administrative expenses	129.5	129.7	127.7	138.8	525.7
Net earnings from continuing operations	$ 47.7	$ 59.8	$ 48.6	$ 14.2	$ 170.3
Net earnings from discontinued operations	1.2	3.5	6.1	3.9	14.7
Net earnings	$ 48.9	$ 63.3	$ 54.7	$ 18.1	$ 185.0
Basic earnings per common share:					
Continuing operations	$ 0.56	$ 0.70	$ 0.56	$ 0.16	$ 1.97
Discontinued operations	0.01	0.04	0.07	0.04	0.17
Total basic earnings per common share	$ 0.57	$ 0.74	$ 0.63	$ 0.21	$ 2.14
Diluted earnings per common share:					
From continuing operations	$ 0.54	$ 0.68	$ 0.55	$ 0.16	$ 1.93
From discontinued operations	0.01	0.04	0.07	0.04	0.17
Total diluted earnings per common share	$ 0.56	$ 0.72	$ 0.62	$ 0.20	$ 2.10

** Changes in previously reported Net sales, Gross profit and Selling, general and administrative expenses are due to the reclassification of amounts related to the discontinued operations of the entry door business. As described in Note U Discontinued Operations of the Notes to the Consolidated Financial Statements in Item 15 of this Form 10-K, the Company met the requirements to classify its entry door business as a discontinued operation in December 2003.

EXHIBIT INDEX
THE STANLEY WORKS
EXHIBIT LIST

(3) (i) Restated Certificate of Incorporation (incorporated by reference to Exhibit 3(i) to the Annual Report on Form 10-K for the year ended January 2, 1999).

(ii) The Stanley Works By-laws as amended October 17, 2001 (incorporated by reference to Exhibit 3(ii) to the Annual Report on Form 10-K for the year ended December 29, 2001).

(4) (i) Indenture, dated as of April 1, 1986 between the Company and State Street Bank and Trust Company, as successor trustee, defining the rights of holders of 5.75% Notes due March 1, 2004 (incorporated by reference to Exhibit 4(a) to Registration Statement No. 33-4344 filed March 27, 1986).

(ii) First Supplemental Indenture, dated as of June 15, 1992 between the Company and State Street Bank and Trust Company, as successor trustee (incorporated by reference to Exhibit (4)(c) to Registration Statement No. 33-46212 filed July 21, 1992).

(a) Certificate of Designated Officers establishing Terms of 5.75% Notes due March 1, 2004 (incorporated by reference to Exhibit 4(ii)(b) to the Annual Report on Form 10-K for the year ended January 2, 1999).

(iii) Rights Agreement, dated January 31, 1996 (incorporated by reference to Exhibit (4)(i) to Current Report on Form 8-K dated January 31, 1996).

(iv) Second Amended and Restated Facility A (364 Day) Credit Agreement, dated as of October 15, 2003, with the banks named therein and Citibank, N.A. as administrative agent.

(v) Facility B (Five Year) Credit Agreement, dated as of October 17, 2001, with the banks named therein and Citibank, N.A. as administrative agent (incorporated by reference to Exhibit 4(v) to the Annual Report on Form 10-K for the year ended December 29, 2001).

(vi) Indenture, dated as of November 1, 2002 between the Company and JPMorgan Chase Bank, as trustee, defining the rights of holders of 3½% Notes Due November 1, 2007 and 4-9/10% Notes due November 1, 2012 (incorporated by reference to Exhibit 4(vi) to the Annual Report on Form 10-K for the year ended December 28, 2002).

(a) Certificate of Designated Officers establishing Terms of 3½% Series A Senior Notes due 2007, 4-9/10% Series A Senior Notes due 2012, 3½% Series B Senior Notes due 2007 and 4-9/10% Series B Senior Notes due 2012 (incorporated by reference to Exhibit 4(ii) to the Quarterly Report on Form 10-Q for the quarter ended September 27, 2003).

(vii) Registration Rights Agreement dated November 1, 2002 among the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Salomon Smith Barney Inc., BNP Paribas Corp. and Fleet Securities, Inc. as Purchasers (incorporated by reference to Exhibit 4(vii) to the Annual Report on Form 10-K for the year ended December 28, 2002).

(10) (i) Deferred Compensation Plan for Non-Employee Directors as amended December 11, 2000 (incorporated by reference to Exhibit 10(ii) to the Annual Report on Form 10-K for the year ended December 30, 2000).*

(ii) 1988 Long-Term Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10(iii) to the Annual Report on Form 10-K for the year ended January 3, 1998).*

(a) Amendment to 1988 Long-Term Stock Incentive Plan dated December 17, 2003.*

(iii) Management Incentive Compensation Plan effective January 4, 1998 (incorporated by reference to Exhibit 10(iii) to the Quarterly Report on Form 10-Q for the quarter ended July 4, 1998).*

(a) Amendment to Management Incentive Compensation Plan dated December 17, 2003.*

(iv) Deferred Compensation Plan for Participants in Stanley's Management Incentive Plan effective January 1, 1996, as amended.*

(v) Supplemental Retirement and Account Value Plan for Salaried Employees of The Stanley Works amended and restated as of June 30, 2001 (incorporated by reference to Exhibit 10(vi) to the Annual Report on Form 10-K for the year ended December 29, 2001).*

(vi) Note Purchase Agreement, dated as of June 30, 1998, between the Stanley Account Value Plan Trust, acting by and through Citibank, N.A. as trustee under the trust agreement for the Stanley Account Value Plan, for $41,050,763 aggregate principal amount of 6.07% Senior ESOP Guaranteed Notes Due December 31, 2009 (incorporated by reference to Exhibit 10(i) to the Quarterly Report on Form 10-Q for the quarter ended July 4, 1998).

(vii) New 1991 Loan Agreement, dated June 30, 1998, between The Stanley Works, as lender, and Citibank, N.A. as trustee under the trust agreement for the Stanley Account Value Plan, to refinance the 1991 Salaried Employee ESOP Loan and the 1991 Hourly ESOP Loan and their related promissory notes (incorporated by reference to Exhibit 10(ii) to the Quarterly Report on Form 10-Q for the quarter ended July 4, 1998).

(viii) (a) Supplemental Executive Retirement Program amended and restated and effective September 19, 2001 (incorporated by reference to Exhibit 10(ix) to the Annual Report on Form 10-K for the year ended December 29, 2001).*

(b) Amendment to John M. Trani's supplemental Executive Retirement Program, dated September 17, 1997 (incorporated by reference to Exhibit 10(ix)(b) to the Annual Report on Form 10-K for the year ended January 3, 1998).*

(ix) (a) The Stanley Works Non-Employee Directors' Benefit Trust Agreement dated December 27, 1989 and amended as of January 1, 1991 by and between The Stanley Works and Fleet National Bank, as successor trustee (incorporated by reference to Exhibit (10)(xvii)(a) to the Annual Report on Form 10-K for year ended December 29, 1990).

(b) Stanley Works Employees' Benefit Trust Agreement dated December 27, 1989 and amended as of January 1, 1991 by and between The Stanley Works and Fleet National Bank, as successor trustee (incorporated by reference to Exhibit (10)(xvii)(b) to the Annual Report on Form 10-K for year ended December 29, 1990).

(x) Restated and Amended 1990 Stock Option Plan (incorporated by reference to Exhibit 10(xiii) to the Annual Report on Form 10-K for the year ended December 28, 1996).*

(a) Amendment to 1990 Stock Option Plan dated December 17, 2003.*

(xi) Master Leasing Agreement, dated September 1, 1992 between BLC Corporation and The Stanley Works (incorporated by reference to Exhibit 10(i) to the Quarterly Report on Form 10-Q for the quarter ended September 26, 1992).

(xii) The Stanley Works Stock Option Plan for Non-Employee Directors, as amended October 15, 2003 (incorporated by reference to Exhibit 10(iii)(A) to the Quarterly Report on Form 10-Q for the quarter ended September 27, 2003).

(xiii) Employment Agreement dated as of January 1, 2000 between The Stanley Works and John M. Trani (incorporated by reference to Exhibit 10(i) to Current Report on Form 8-K dated June 23, 2000).*

(xiv) 1997 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.2 to Registration Statement No. 333-42582 filed July 28, 2000).*

(a) Amendment to 1997 Long-Term Incentive Plan dated December 17, 2003.*

(xv) 2001 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.1 to Registration Statement No. 333-64326 filed July 2, 2001).*

(a) Amendment to 2001 Long-Term Incentive Plan dated December 17, 2003.*

(xvi) Engagement Letter, dated August 26, 1999 between The Stanley Works and Donald McIlnay (incorporated by reference to Exhibit 10(xvi) to the Annual Report on Form 10-K for the year ended December 28, 2002).*

(xvii) Agreement, dated June 9, 1999 between The Stanley Works and James Loree (incorporated by reference to Exhibit 10(ii) to the Quarterly Report on Form 10-Q for the quarter ended July 3, 1999).*

(xviii) Engagement Letter, dated January 2, 2001 between The Stanley Works and Paul Isabella (incorporated by reference to Exhibit 10 (xix) of the Annual Report on Form 10-K for the year ended December 29, 2001).*

(xix) Engagement Letter, dated September 12, 2000 between The Stanley Works and Jack Garlock (incorporated by reference to Exhibit 10(xix) to the Annual Report on Form 10-K for the year ended December 28, 2002).*

(xx) Forms of Change in Control Severance Agreements (incorporated by reference to Exhibit 10(i) to the Quarterly Report on Form 10-Q/A for the quarter ended June 28, 2003).*

(xxi) Schedule of Certain Executive Officers who are Parties to the Change in Control Severance Agreements in the forms referred to in Exhibit 10(xx) (incorporated by reference to Exhibit 10(ii) to the Quarterly Report on Form 10-Q/A for the quarter ended June 28, 2003).*

(xxii) Retirement Agreement between The Stanley Works and John M. Trani dated December 8, 2003.*

(xxiii) Engagement Letter dated March 5, 2003 between The Stanley Works and Joseph J. DeAngelo.*

(xxiv) Agreement dated February 3, 2004 between The Stanley Works and John F. Lundgren.*

(xxv) Change in Control Agreement dated March 1, 2004 between The Stanley Works and John F. Lundgren (incorporated by reference to Exhibit C to the Agreement attached to this 10-K as Exhibit 10(xxiv).*

(11) Statement re computation of per share earnings (the information required to be presented in this exhibit appears in Notes A and K to the Company's Consolidated Financial Statements set forth in this Form 10-K)

(12) Statement re computation of ratio of earnings to fixed charges

(14) Code of Ethics for CEO and Senior Financial Officers (incorporated by reference to the Company's website, www.stanleyworks.com).

(21) Subsidiaries of Registrant

(23) Consent of Independent Auditors (at page 26)

(24) Power of Attorney

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

(ii) Certification by Chief Financial Officer pursuant to Rule 13a-14(a)

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

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

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(99) (i) Policy on Confidential Proxy Voting and Independent Tabulation and Inspection of Elections as adopted by The Board of Directors October 23, 1991 (incorporated by reference to Exhibit (28)(i) to the Quarterly Report on Form 10-Q for the quarter ended September 28, 1991).

* Management contract or compensation plan or arrangement

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~~**EXHIBIT 4 (iv)**~~

~~EXECUTION COPY~~

~~SECOND AMENDED AND RESTATED~~
~~FACILITY A (364-DAY) CREDIT AGREEMENT~~

~~Dated as of October 17, 2001~~

~~Amended and Restated~~
~~as of October 16, 2002 and October 15, 2003~~

~~between~~

~~THE STANLEY WORKS~~
~~*as Borrower*~~

~~THE LENDERS REFERRED TO HEREIN,~~
~~*as Lenders*~~

~~and~~

~~CITIBANK, N.A.~~
~~*as Administrative Agent*~~

~~CITIGROUP GLOBAL MARKETS INC.~~
~~*as Lead Arranger and Book Runner*~~

~~and~~

~~FLEET NATIONAL BANK~~
~~MELLON BANK, N.A.~~
~~BNP PARIBAS~~
~~*as Co-Syndication Agents*~~

~~SECOND AMENDMENT AND RESTATEMENT dated as of October 15, 2003, among THE STANLEY WORKS (the "Borrower"); each of the lenders that is a signatory hereto (the "Lenders"); and CITIBANK, N.A., as administrative agent for the Lenders (together with its successors in such capacity, the "Administrative Agent").~~

~~The Borrower, certain Lenders and the Administrative Agent are parties to a Facility A (364-Day) Credit Agreement dated as of October 17, 2001 (as amended and restated as of October 16, 2002, the "Existing Facility A (364-Day) Credit Agreement"), providing, subject to the terms and conditions thereof, for extensions of credit (by the making of loans) by the Lenders to the Borrower in an aggregate principal amount not exceeding \$250,000,000 at any one time outstanding. The Borrower, the Lenders and the Administrative Agent wish to extend the Termination Date as defined in the Existing Facility A (364-Day) Credit Agreement by 364 days to October 13, 2004 and to amend and restate the Existing Facility A (364-Day) Credit Agreement in certain other respects; and accordingly, the parties hereto hereby agree to amend the Existing Facility A (364-Day) Credit Agreement as set forth herein and to restate the Existing Facility A (364-Day) Credit Agreement as so amended (as so amended and restated, the "Second Amended and Restated Credit Facility A (364-Day) Agreement"):~~

~~Section 1. Definitions. Terms used but not otherwise defined herein have the meanings given them in the Existing Facility A (364-Day) Credit Agreement.~~

~~Section 2. Amendments. Effective on the Restatement Date (as defined below), the Existing Facility A (364-Day) Credit Agreement is hereby amended as set forth below, and the Existing Facility A (364-Day) Credit Agreement is restated to read in its entirety as set forth in the Existing Facility A (364-Day) Credit Agreement, which is hereby incorporated herein by reference, as amended as set forth below:~~

~~A. References in the Existing Facility A (364-Day) Credit Agreement to "this Agreement" and words of similar import (including indirect references) shall be deemed to be references to the Existing Facility A (364-Day) Credit Agreement as amended and restated hereby.~~

~~B. The reference to "Salomon Smith Barney" on the cover of the Existing Facility A (364-Day) Credit Agreement is amended to read "Citigroup Global Markets Inc.".~~

~~C. The definition of "Termination Date" in Section 1.01 of the Existing Facility A (364-Day) Credit Agreement is amended to read in its entirety as set forth below:~~

~~""Termination Date" means the earlier of (a) October 13, 2004 or (b) the date of termination in whole of the Commitments pursuant to Section 2.01(b) or Section 6.01.".~~

~~D. Section 8.02 of the Existing Facility A (364-Day) Credit Agreement is amended by deleting it in its entirety and replacing it with the following:~~

~~"Section 8.02. Notices.~~

~~(a) All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy, encrypted or unencrypted) and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered or, in the case of telecopy notice, when received, addressed to the Borrower, the Administrative Agent, or such Lender (or other holder) at its address set forth below:~~

~~(i) if to the Borrower, at its address at 1000 Stanley Drive, New Britain, Connecticut 06053, Attention: Secretary, telecopy no. 860-827-3911, with a copy to Craig A. Douglas, Treasurer, at the same address and telecopy no. 860-827-3886;~~

~~(ii) if to any Initial Lender, at its Domestic Lending Office specified opposite its name on Schedule I;~~

~~(iii) if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and~~

~~(iv) if to the Administrative Agent, at its address at 2 Penns Way, Suite 200, New Castle, Delaware 19720, Attention Bank Loans Syndication, telecopy no. 302-894-6120;~~

~~or, as to the Borrower or the Administrative Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Administrative Agent. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.~~

~~E. Section 8.04(c) of the Existing Facility A (364-Day) Credit Agreement is amended by inserting the following sentence immediately after the last sentence thereof:~~

"The Borrower agrees not to assert any claim against any Indemnified Party on any theory of liability, for consequential, indirect, special or punitive damages arising out of or otherwise relating to this Agreement or any of the transactions contemplated hereby or the actual or proposed use of the proceeds of the Advances.".

F. Clause (i) of the proviso in Section 8.07(a) of the Existing Facility A (364-Day) Credit Agreement is amended by inserting the phrase "or delayed, and which consent of the Borrower shall not be required if an Event of Default exists" immediately after the words "unreasonably withheld".

G. Article VIII of the Existing Facility A (364-Day) Credit Agreement is amended by inserting after the last sentence of Section 8.13 the following new Section 8.14:

"Section 8.14. Tax Structure Disclosure. Anything herein to the contrary notwithstanding, each party hereto (and each party's employees, representatives or other agents) may disclose to any and all Persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to such party relating to such U.S. tax treatment and U.S. tax structure, other than the identities of the parties and any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.".

G. Schedule I of the Existing Facility A (364-Day) Credit Agreement is amended to read in its entirety as set forth in Schedule I hereto.

Section 3. Representations and Warranties. The Borrower represents and warrants to the Lenders as of the Restatement Date that (i) the representations and warranties set forth in Section 4.01 of the Existing Facility A (364-Day) Credit Agreement are true and correct on and as of the Restatement Date as though made on and as of the Restatement Date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date) and as if each reference in said Section 4.01 to "this Agreement" included reference to the Second Amended and Restated Facility A (364-Day) Credit Agreement and as if each reference in said Sections 4.01(f) and 4.01(h) to "December 29, 2001" were instead a reference to "December 28, 2002" and as if each reference in said Sections 4.01(f) and 4.01(h) to "June 29, 2002" were instead a reference to "June 28, 2003" and as if each reference in said Sections 4.01(e) and 4.01(g) to "December 31, 2001" were instead a reference to "December 31, 2002" and (ii) no event has occurred and is continuing that constitutes a Default or Event of Default (and the parties agree that breach of any of the representations and warranties in this Section 3 shall constitute an Event of Default under Section 6.01(b) of the Second Amended and Restated Facility A (364-Day) Credit Agreement).

Section 4. Conditions to Effectiveness. The amendment and restatement set forth in Section 2 hereof shall become effective on the date (the "Restatement Date") on which the Administrative Agent shall notify the Borrower that the following conditions precedent have been satisfied (and the Administrative Agent shall promptly notify the Lenders of the occurrence of the Restatement Date):

(a) Documents. The Administrative Agent shall have received the following documents (with sufficient copies for each Lender), each of which shall be satisfactory to the Administrative Agent in form and substance:

(1) Execution by All Parties. Counterparts of this Second Amendment and Restatement, duly executed and delivered by the Borrower, the Administrative Agent and the Lenders.

(2) Authority and Approvals. Certified copies of the resolutions of the Board of Directors of the Borrower (or equivalent documents) authorizing and approving this Second Amendment and Restatement, authorizing Borrowings under the Second Amended and Restated Facility A (364-Day) Credit Agreement in an aggregate principal amount up to but not exceeding $250,000,000 at any one time outstanding, and certified copies of all documents evidencing other necessary action (corporate, partnership or otherwise) and governmental approvals, if any, with respect to this Second Amendment and Restatement.

(3) Secretary's or Assistant Secretary's Certificate. A certificate of the Secretary or an Assistant Secretary of the Borrower, dated the Restatement Date, certifying the names and true signatures of the officers of the Borrower authorized to execute and deliver this Second Amendment and Restatement and the other documents to be delivered hereunder.

(4) Opinion of Borrower's Counsel. A favorable opinion of counsel to the Borrower, in substantially the form of Exhibit A hereto, and as to such other matters as the Administrative Agent or any Lender acting through the Administrative Agent may reasonably request.

(5) Closing Certificate. A certificate of a senior financial officer of the Borrower, dated the Restatement Date, certifying the representations and warranties set forth in Section 3 hereof are true on such date as if made on and as of such date.

(b) Approvals. The Administrative Agent shall have received evidence satisfactory to it of receipt of all third party consents and approvals necessary in connection with this Second Amendment and Restatement (without the imposition of any conditions except those that are acceptable to the Lenders) and that the same remain in effect.

(c) Fees and Expenses. The Administrative Agent shall have received evidence satisfactory to it that (i) the Borrower shall have paid in full all accrued fees, expenses and interest due and payable to the Administrative Agent and the Lenders under the Existing Facility A (364-Day) Credit Agreement, (ii) the Borrower shall have paid all accrued fees and expenses of the Administrative Agent (including the reasonable fees and expenses of counsel to the Administrative Agent) in connection with this Second Amendment and Restatement and (iii) the Borrower shall have paid to the Administrative Agent for account of the Lenders such up-front fees in connection with the execution of this Second Amendment and Restatement as the Borrower and the Administrative Agent shall have agreed upon.

Section 5. Pro Rata Adjustments. The Borrower shall, on the Restatement Date (but only if any Advances are outstanding on said date), borrow Advances from certain of the Lenders and/or (notwithstanding (i) the second sentence of Section 2.07(a) of the Second Amended and Restated Facility A (364-Day) Credit Agreement requiring that prepayments be made in accordance with said Section 2.07(a) and (ii) Section 2.09(a) of the Second Amended and Restated Facility A (364-Day) Credit Agreement requiring that payments be made ratably in accordance with the principal amounts of the Advances held by the Lenders) prepay Advances (together with all accrued and unpaid interest thereon) such that, after giving effect thereto, the Advances (including, without limitation, the principal amounts and Interest Periods thereof) shall be held by the Lenders ratably in accordance with their respective Commitments (after giving effect to this Second Amendment and Restatement).

Section 6. Miscellaneous. Except as herein provided, the Existing Facility A (364-Day) Credit Agreement shall remain unchanged and in full force and effect. This Second Amendment and Restatement may be executed in any number of counterparts, all of which taken together shall constitute one and the same agreement and any of the parties hereto may execute this Second Amendment and Restatement by signing any such counterpart. This Second Amendment and Restatement shall be governed by, and construed in accordance with, the law of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment and Restatement to be duly executed and delivered as of the day and year first above written.

THE STANLEY WORKS

By ________________________________

Name:
Title:

CITIBANK, N.A., as Administrative Agent and as

~~Lender~~

~~By~~ ________________________

~~Name:~~
~~Title:~~

~~FLEET NATIONAL BANK~~

~~By~~ ________________________

~~Name:~~
~~Title:~~

~~BNP PARIBAS~~

~~By~~ ________________________

~~Name:~~
~~Title:~~

~~MELLON BANK, N.A.~~

~~By~~ ________________________

~~Name:~~
~~Title:~~

~~JPMORGAN CHASE BANK~~

~~By~~ ________________________

~~Name:~~
~~Title:~~

~~BARCLAYS BANK PLC~~

~~By~~ ________________________

~~Name:~~
~~Title:~~

~~RBC CENTURA BANK~~

~~By~~ ________________________

~~Name:~~
~~Title:~~

~~THE NORTHERN TRUST COMPANY~~

~~By~~ ________________________

~~Name:~~
~~Title:~~

~~UBS AG, CAYMAN ISLANDS BRANCH~~

~~By~~ ________________________

~~Name:~~
~~Title:~~

~~SCHEDULE I~~

~~LENDERS AND COMMITMENTS~~

~~Lenders~~	~~Commitment~~
~~CITIBANK, N.A.~~	~~$43,500,000.00~~
~~FLEET NATIONAL BANK~~	~~$36,700,000.00~~
~~BNP PARIBAS~~	~~$36,700,000.00~~
~~MELLON BANK, N.A.~~	~~$36,700,000.00~~
~~JPMORGAN CHASE BANK~~	~~$25,000,000.00~~
~~BARCLAYS BANK PLC~~	~~$17,850,000.00~~
~~RBC CENTURA BANK~~	~~$17,850,000.00~~
~~THE NORTHERN TRUST COMPANY~~	~~$17,850,000.00~~
~~UBS AG, CAYMAN ISLANDS BRANCH~~	~~$17,850,000.00~~

~~SCHEDULE I~~

~~ADDRESS AND APPLICABLE LENDING OFFICES~~

~~Name of Lenders and Addresses For Notices~~	~~Domestic Lending Office~~	~~Eurodollar Lending Office~~
~~Mellon Bank, N.A.~~ ~~3 Mellon Bank Center,~~ ~~12th Floor~~ ~~Pittsburgh, PA 15259~~ ~~Telecopy: 412-209-6113~~ ~~Telephone: 412-234-3698~~ ~~Attn: Albert J. Gestiehr~~	~~Mellon Bank, N.A.~~ ~~3 Mellon Bank Center,~~ ~~12th Floor~~ ~~Pittsburgh, PA 15259~~	~~Mellon Bank, N.A.~~ ~~3 Mellon Bank Center,~~ ~~12th Floor~~ ~~Pittsburgh, PA 15259~~
~~BNP Paribas~~ ~~787 Seventh Avenue~~ ~~New York, NY 10019~~ ~~Telecopy: 212-841-3049~~	~~BNP Paribas~~ ~~787 Seventh Avenue~~ ~~New York, NY 10019~~	~~BNP Paribas~~ ~~787 Seventh Avenue~~ ~~New York, NY 10019~~

Telephone: 212-841-2747 Attn: Christopher Criswell		
Centura Bank 3201 Beechleaf Court, Suite 700 Raleigh, NC 27604-1051 — Telecopy: 919-788-5515 Telephone: 919-788-5413 Attn: William W. Newell	Centura Bank 3201 Beechleaf Court, Suite 700 Raleigh, NC 27604-1051	Centura Bank 3201 Beechleaf Court, Suite 700 Raleigh, NC 27604-1051
Barclays Bank PLC P.O. Box 544 34 Lombard Street London EC3V 9EX Telecopy: 171-699-2298 — Contacts: Jonathan Gray Tel. No. 171-699-2301	Barclays Bank PLC London c/o Barclays Bank PLC 75 Wall Street New York, N.Y. 10265 — Ref: Stanley Works Base Rate Advances — Telecopy: 212-412-5002 — Contact: Eddie Cotto, Jr. 212-412-3710	Barclays Bank PLC Central Loan Admin. Dept., 5th Floor St. Swithins House 11/12 St. Swithins Lane London EC4N 8AS — Ref: Stanley Works Eurodollar Rate Advances — Telecopy: 171-621-4583 Telex: 895-0821 — Contact: Tanya Bond 171-621-4599

Name of Lenders and Addresses For Notices	**— Domestic Lending Office**	**Eurodollar Lending Office**
Citibank, N.A. 2 Penns Way, Suite 200, New Castle, Delaware 19720 — Telecopy no. 302-894-6120 Attention: Bank Loans Syndication	Citibank, N.A. 2 Penns Way, Suite 200, New Castle, Delaware 19720 — Telecopy no. 302-894-6120 Attention: Bank Loans Syndication	Citibank, N.A. 2 Penns Way, Suite 200, New Castle, Delaware 19720 — Telecopy no. 302-894-6120 Attention: Bank Loans Syndication
JPMorgan Chase Bank 1 Chase Manhattan Plaza, 8th floor, New York, NY 10081 — Attention: Primary contact - Vito Cipriano Tel(212) -552-7402 Fax(212)-552-5662 — Secondary Contact – Patricia Ciocco Tel(212) -552-4599 Fax(212)-552-5662	JPMorgan Chase Bank 1 Chase Manhattan Plaza, 8th floor, New York, NY 10081 — Attention: Primary contact - Vito Cipriano Tel(212) -552-7402 Fax(212)-552-5662 — Secondary Contact – Patricia Ciocco Tel(212) -552-4599 Fax(212)-552-5662	JPMorgan Chase Bank 1 Chase Manhattan Plaza, 8th floor, New York, NY 10081 — Attention: Primary contact - Vito Cipriano Tel(212) -552-7402 Fax(212)-552-5662 — Secondary Contact – Patricia Ciocco Tel(212) -552-4599 Fax(212)-552-5662
The Northern Trust Company 50 South La Salle Street Chicago, Illinois 60675 — Attn: Russ Rockenbach (312) 630-6414	The Northern Trust Company 50 South La Salle Street Chicago, Illinois 60675 — Attn: Russ Rockenbach (312) 630-6414	The Northern Trust Company 50 South La Salle Street Chicago, Illinois 60675 — Attn: Russ Rockenbach (312) 630-6414
Fleet National Bank 100 Federal Street MADE10010A Boston, MA 02110 — Telecopy: 617-434-0601 Telephone: 617-434-9180 Attn: Renata Salgado Email: renatalucia_v_salgado@fleet.com	Fleet National Bank 100 Federal Street MADE10010A Boston, MA 02110 — Telecopy: 617-434-0601 Telephone: 617-434-9180 Attn: Renata Salgado Email: renatalucia_v_salgado@fleet.com	Fleet National Bank 100 Federal Street MADE10010A Boston, MA 02110 — Telecopy: 617-434-0601 Telephone: 617-434-9180 Attn: Renata Salgado Email: renatalucia_v_salgado@fleet.com
UBS AG, New York Branch 677 Washington Blvd. Stamford, CT 06901 — Telecopy: 203-719-3888 Telephone: 203-719-5274 Attn: Tim Costello	UBS AG, New York Branch 677 Washington Blvd. Stamford, CT 06901 — Telecopy: 203-719-3888 Telephone: 203-719-5274 Attn: Tim Costello	UBS AG, New York Branch 677 Washington Blvd. Stamford, CT 06901 — Telecopy: 203-719-3888 Telephone: 203-719-5274 Attn: Tim Costello

EXHIBIT A

[FORM OF OPINION OF COUNSEL TO THE BORROWER]

October 15, 2003

To each of the Lenders listed on
Schedule I hereto and
to Citibank, N.A., as
Administrative Agent for the Lenders

Re: The Second Amended and Restated Facility A (364 Day) Credit Agreement among The Stanley Works, the Lenders party thereto and Citibank, N.A., as Administrative Agent

Ladies and Gentlemen:

We have acted as special counsel to The Stanley Works, a Connecticut corporation (the "Borrower"), in connection with the Second Amendment and Restatement dated as of even date herewith (the "Second Amendment and Restatement") of the Facility A (364-Day) Credit Agreement dated as of October 17, 2001 (the "Facility A (364-Day) Credit Agreement" as amended and restated as of October 16, 2002, and, as amended by the Second Amendment and Restatement, the "Second Amended and Restated Facility A (364-Day) Credit Agreement"), among the Borrower, the lenders party thereto (the "Lenders") and Citibank, N.A., as administrative agent (in such capacity, the "Administrative Agent") for the Lenders. This opinion is being delivered pursuant to Section 4(a)(4) of the Second Amendment and Restatement. Capitalized terms used herein but not otherwise defined shall have the meaning set forth in the Second Amended and Restated Facility A (364-Day) Credit Agreement.

In rendering the opinions set forth herein, we have examined and relied on originals or copies of (i) the Second Amendment and Restatement, (ii) the certificate executed by the General Counsel of the Borrower dated as of the date hereof, a copy of which is attached hereto as Exhibit A (the "Borrower's Certificate"), (iii) a copy of the Borrower's Annual Report on Form 10-K for the year ended December 28, 2002 (the "Form 10-K") filed with the Securities and Exchange Commission, (iv) a copy of the Borrower's Quarterly Report on Form 10-Q as amended by Form 10-Q/A for the period ended June 28, 2003 filed with the Securities and Exchange Commission, (v) the Restated Certificate of Incorporation of the Borrower dated September 11, 1998, filed with the Connecticut Secretary of the State's office on September 15, 1998, (vi) the Bylaws of the Borrower as amended through October 17, 2001, (vii) Resolutions of the Board of Directors of the Borrower adopted on October 16, 2002, and (viii) a Certificate of Legal Existence of the Borrower dated October 9, 2003 issued by the Connecticut Secretary of the State. Furthermore, in rendering the opinions set forth herein we have, with your consent, relied only upon examination of the documents described above and upon statements and representations

~~of the Borrower and its officers and other representatives, including the facts and conclusions set forth in the Borrower's Certificate and we have made no independent verification or investigation of the factual matters set forth therein.~~

~~In our examination we have assumed the genuineness of all signatures including endorsements, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as facsimile, certified or photostatic copies, and the authenticity of the originals of such copies.~~

~~We express no opinion as to the laws of any jurisdiction other than the Applicable Laws of the States of Connecticut and New York and the United States of America. "Applicable Laws" shall mean those laws, rules and regulations which, in our experience, are normally applicable to transactions of the type contemplated by the Second Amendment and Restatement without our having made any special investigation as to the applicability of any specific law, rule or regulation, and which are not the subject of a specific opinion herein referring expressly to a particular law or laws. "Governmental Authorities" shall mean any United States of America, Connecticut or New York executive, legislative, judicial, administrative or regulatory body. "Governmental Approval" shall mean any consent, approval, license, authorization or validation of, or filing, recording or registration with, any Governmental Authority pursuant to Applicable Laws.~~

~~Based upon the foregoing and subject to the limitations, qualifications, exceptions and assumptions set forth herein, we are of the opinion that as of the date hereof:~~

~~1. The Borrower has been duly incorporated in, and is validly existing under the laws of, the State of Connecticut.~~

~~2. The Borrower has the corporate power and corporate authority to execute, deliver, and perform its obligations under the Second Amendment and Restatement.~~

~~3. The execution and delivery of the Second Amendment and Restatement has been duly authorized by all requisite corporate action on the part of the Borrower.~~

~~4. The Second Amendment and Restatement has been duly executed and delivered by the Borrower and constitutes the valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms under the laws of the State of New York.~~

~~5. Neither the execution, delivery or performance by the Borrower of the Second Amendment and Restatement nor the compliance by the Borrower with the terms and provisions thereof will contravene any provision of any Applicable Law of the States of New York and Connecticut, or the federal laws of the United States of America.~~

~~6. Based upon our review of Applicable Laws, but without our having made any special investigation concerning any other law, rule or regulation, no Governmental Approval which has not been obtained or taken and is not in full force and effect is required to authorize or is required in connection with the execution, delivery or performance of the Second Amendment and Restatement by the Borrower.~~

~~7. Neither the execution, delivery or performance by the Borrower of the Second Amendment and Restatement nor the compliance by the Borrower with the terms and provisions thereof will conflict with, contravene, violate or constitute a default under (i) to the best of our knowledge, after due investigation, any provision of any Applicable Contract or any other agreement or instrument to which the Borrower or the Borrower's property is subject, (ii) any provision of any Applicable Law, (iii) to the best of our knowledge, after due investigation, any judicial or administrative order or decree of any Governmental Authority, or (iv) its Certificate of Incorporation and Bylaws. As used in this paragraph, "due investigation" means solely that we have reviewed the Certificate of the Borrower attached hereto as Exhibit A.~~

~~8. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.~~

~~Our opinions are subject to the following assumptions and qualifications:~~

~~(a) since we do not represent the Borrower on a regular basis, we have assumed the accuracy of the description of the Borrower's business set forth in the Borrower's Form 10-K;~~

~~(b) enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer, or other similar laws affecting creditors' rights and remedies generally and by general principles of equity or the exercise of judicial discretion (regardless of whether enforcement is sought in equity or at law) including, but not limited to, principles relating to good faith and fair dealing, commercial reasonableness and the like;~~

~~(c) we have assumed that the Second Amendment and Restatement constitutes the valid and binding obligation of each party thereto (other than the Borrower) enforceable against such other party in accordance with its terms;~~

~~(d) we express no opinion as to the effect on the opinions expressed herein of (i) the compliance or non-compliance of the Administrative Agent or any party (other than the Borrower to the extent expressly set forth herein) to the Second Amendment and Restatement with any state, federal or other laws or regulations applicable to them or (ii) the legal or regulatory status or the nature of the business of the Administrative Agent;~~

~~(e) we express no opinion as to the enforceability of any rights to contribution or indemnification provided for in the Second Amendment and Restatement which are violative of the public policy underlying any law, rule or regulation (including any federal or state securities law, rule or regulation); and~~

~~(f) we express no opinion with respect to any provision of the Second Amendment and Restatement to the extent it authorizes or permits any purchaser of a participation interest to set-off or apply any deposit, property or indebtedness with respect to any participation interest.~~

~~In rendering the foregoing opinions, we have assumed, with your consent, that (a) the execution, delivery, or performance by the Borrower of the Second Amendment and Restatement does not and will not conflict with, contravene, violate or constitute a default under any rule, law, or regulation to which the Borrower is subject (other than Applicable Laws, orders, and decrees as to which we express an opinion in paragraph 7 herein) or any agreement or instrument to which the Borrower or the Borrower's property is subject (except to the extent that we express an opinion in paragraph 7 herein); and (b) no authorization, consent or other approval of, notice to or filing with, any court, governmental authority or regulatory body (other than Governmental Approvals as to which we express our opinion in paragraph 6 herein) is required to authorize or is required in connection with the execution, delivery or performance by the Borrower of the Amendment and Restatement or the transactions contemplated thereby.~~

~~This opinion is limited to the matters stated herein and no opinion is implied or may be inferred beyond the matters expressly stated. The opinions set forth herein are rendered as of the date hereof. We assume no obligation to update any facts or circumstances which may hereafter come to our attention or any changes in any laws, regulations or court decisions which may hereafter occur.~~

~~This opinion is being furnished only to you in connection with the Second Amendment and Restatement and is solely for your benefit and is not to be used, circulated, quoted or otherwise referred to for any other purpose or relied upon by any other Person for any purpose without our prior written consent, provided, that any Person that becomes a Lender pursuant to Section 8.07(a) of the Second Amended and Restated Facility A (364-Day) Credit Agreement may rely on this opinion as if it were addressed to such Person and delivered on the date hereof.~~

~~Very truly yours,~~

~~Tyler Cooper & Alcorn, LLP~~

~~By:~~ ______________________________

~~EXHIBIT A to~~
~~TC&A OPINION~~

~~BORROWER'S CERTIFICATE~~

~~I, Bruce H. Beatt, am General Counsel of The Stanley Works (the "Borrower"). I understand that pursuant to Section 4(a)(4) of that certain Second Amendment and Restatement dated as of October 15, 2003 (the "Second Amendment and Restatement") to the Facility A (364-Day) Credit Agreement dated as of October 17, 2001 (the "Facility A (364-Day) Credit Agreement", as amended and restated as of October 16, 2002 and the Second Amendment and Restatement, the "Second Amended and Restated Facility A (364-Day) Credit Agreement"), among the Borrower, the lenders party thereto (the "Lenders") and Citibank, N.A. as administrative agent for the Lenders, Tyler Cooper & Alcorn, LLP is relying on this certificate and the statements made herein in rendering certain legal opinions. Capitalized terms used herein but not otherwise defined shall have the meaning set forth in the Second Amended and Restated Facility A (364-Day) Credit Agreement.~~

~~With regard to the foregoing, on behalf of the Borrower I certify that:~~

~~A. Based solely and exclusively on conversations with Craig A. Douglas, Treasurer of Borrower;~~

~~1. The value of all securities owned by the Borrower (excluding those issued by majority-owned Subsidiaries of the Borrower) does not exceed 10% of the value of the Borrower's total assets;~~

~~2. Less than 25 percent of the assets of the Borrower on a consolidated basis and on an unconsolidated basis consist of the margin stock (as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System); and~~

~~3. The Borrower (a) is primarily engaged, directly or through a wholly-owned subsidiary or subsidiaries, in a business or businesses other than that of investing, reinvesting, owning holding or trading in securities and (b) is not engaged and does not propose to engage in the business of investing, reinvesting, owning, holding or trading in securities, and does not own or propose to acquire investment securities having a value exceeding 40 percent of the value of the Borrower's total assets (exclusive of government securities and cash items) on an unconsolidated basis; and~~

~~B. Based solely and exclusively on a certain Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935 (the "Act"), filed by Borrower with the United States Securities and Exchange Commission on February 28, 2003 (Accession Number 0000093556-04-000004), Borrower is exempt from the provisions of the Act.~~

~~C. Based solely and exclusively on interviews of the officers of the Borrower responsible for its financing activities and the lawyers under my supervision, the execution, delivery and performance by the Borrower of any of its obligations under the Second Amendment and Restatement and the Second Amended and Restated Facility A (364-Day) Credit Agreement does not and will not conflict with, contravene, violate or constitute a default under (i) any provision of any Applicable Contract or any other agreement or instrument to which the Borrower or the Borrower's property is subject, or (ii) any judicial or administrative order or decree of any Governmental Authority.~~

~~IN WITNESS WHEREOF, I have executed this certificate this ___ day of October, 2003.~~

~~By:~~______________________________
~~Name: Bruce H. Beatt~~
~~Title: Vice President, General Counsel~~
~~and Secretary~~

~~EXHIBIT 10(ii)(a)~~

~~AMENDMENT~~
~~to~~
~~THE STANLEY WORKS 1988 LONG-TERM STOCK INCENTIVE PLAN~~

~~Pursuant to resolutions adopted by the Board of Directors of The Stanley Works on December 17, 2003, THE STANLEY WORKS 1988 LONG-TERM STOCK INCENTIVE PLAN is hereby amended as follows, effective December 17, 2003:~~

~~Section 13 is deleted and replaced with the following:~~

~~13. DEFINITION OF CHANGE IN CONTROL~~

~~A. For purposes of this Plan, a "Change in Control of the Company" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:~~

~~(I) Any Person, as hereinafter defined, is or becomes the Beneficial Owner, as hereinafter defined, directly or indirectly, of securities of the Company, as hereinafter defined (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates, as hereinafter defined) representing 25% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (III) below; or~~

~~(II) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board of Directors and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board of Directors or nomination for election by the Company's stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors December 17, 2003 or whose appointment, election or nomination for election was previously so approved or recommended; or~~

~~(III) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (i) a merger or consolidation which results in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or~~

~~(IV) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.~~

~~B. Solely for purposes of this Section 13, and notwithstanding anything to the contrary in any other provision of this Plan, the following terms shall have the meanings indicated below:~~

1. ~~"Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.~~

2. ~~"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.~~

3. ~~"Company" shall mean The Stanley Works.~~

4. ~~"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.~~

5. ~~"Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.~~

____

~~Mark J. Mathieu~~
~~Vice President, Human Resources~~

~~**EXHIBIT 10(iii)(a)**~~

~~AMENDMENT~~
~~to~~
~~MANAGEMENT INCENTIVE COMPENSATION PLAN~~

~~Pursuant to resolutions adopted by the Board of Directors of The Stanley Works on December 17, 2003, the MANAGEMENT INCENTIVE COMPENSATION PLAN is hereby amended as follows, effective December 17, 2003:~~

~~Section IV is deleted and replaced with the following:~~

~~**IV. Definition of Change in Control**~~

~~A. For purposes of this Plan, a "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:~~

~~(I) any Person, as hereinafter defined, is or becomes the Beneficial Owner, as hereinafter defined, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates, as hereinafter defined) representing 25% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (III) below; or~~

~~(II) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board, as hereinafter defined, and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on December 17, 2003 or whose appointment, election or nomination for election was previously approved or recommended; or~~

~~(III) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (i) a merger or consolidation which results in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or~~

~~(IV) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.~~

~~B. Solely for purposes of this Section IV, and notwithstanding anything to the contrary in any other provision of this Plan, the following terms shall have the meanings indicated below:~~

~~1. "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.~~

~~2. "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.~~

~~3. "Board" shall mean the Board of Directors of The Stanley Works.~~

~~4. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.~~

~~5. "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.~~

____

~~Mark J. Mathieu~~
~~Vice President, Human Resources~~

~~**EXHIBIT 10(iv)**~~

~~**THE STANLEY WORKS**~~

~~Deferred Compensation Plan for Participants~~
~~in Stanley's Management Incentive Plans~~

~~1. Purpose of the Plan.~~

~~a. To offer to certain participants in Stanley's management incentive plans an opportunity to defer the receipt of incentive earnings for tax or other reasons suited to the participant's own financial plans.~~

~~b. To provide an opportunity to participants to reinvest their incentive earnings in The Stanley Works ("Company" or "Stanley") under terms which will provide a return related to the future earnings performance of the Company.~~

~~c. To provide an incentive to participants, supplementing that of the management incentive plans, for the achievement of superior earnings performance by the Company.~~

~~2. Eligibility.~~

~~a. All participants in Stanley's management incentive plans who are "highly compensated employees" are eligible to participate in this Plan. A "highly compensated employee" is an employee who, for the year for which an election is made under this Plan, is a highly compensated employee, as defined in Section 414(q) of the Internal Revenue Code of 1986, as amended. Such definition is based on W-2 income (including amounts deferred under Section 125 or 401(k) of the Internal Revenue Code) during the calendar year immediately preceding the year for which an election is made exceeding the indexed amount [$90,000 for 2003] described in Section 414(q)(1)(B) of the Internal Revenue Code for such preceding calendar year.~~

~~b. This Plan is applicable only to incentive earnings earned under the management incentive plans.~~

~~3. Election by Participant.~~

~~a. The election (the "original election") by the participant must be made in December (or such later date determined by the administrator of this Plan, but not later than the March 31 following such December) of each year with respect to deferral of incentive earnings earned the following year. All or any portion, or none, of the incentive earnings may be deferred.~~

~~b. The original election must specify when or under what circumstances payment is to be made in the future and whether by lump sum or in a series of payments; the circumstances that may be specified are limited to death, retirement, or termination of employment. Effective with original elections made on or after January 1, 1996, if the election specifies that payment is to be made in a year certain (as opposed to a year related to death, retirement, or termination of employment) such year certain must be at least five years after the year the incentive earnings are earned.~~

~~c. In the case of any original election made after February 25, 1981, notwithstanding the specifics of the election, any deferred funds and interest thereon not paid out prior to the later of the participant's death or the tenth anniversary of the participant's termination of employment by death, retirement or otherwise will be paid out promptly after the later of such death or such anniversary.~~

~~d. Effective October 1, 1996, once made an election (either an original election or a subsequent election) may not be changed to delay the receipt of incentive earnings to a year certain (as opposed to a delay to a year related to death, retirement, or termination of employment) unless such year certain is at least five years after the year in which such change is being submitted.~~

~~e. Once made, an election may not be changed either in amount or method of payment to accelerate the receipt of incentive earnings, except (i) with the approval of the Compensation and Organization Committee of Stanley's Board of Directors upon demonstration of a financial hardship by the participant, or (ii) upon forfeiture of a penalty equal to that percentage of the amount of the payment equal to the Treasury Bill rate fixed by the Treasurer as provided in the footnote on page 4, but in no event less than 10%.~~

~~4. Interest Payment Schedule.~~

~~a(i). Interest will be credited annually on deferred amounts of incentive earnings earned prior to 1992 based on the following schedule:~~

~~**If "Pretax Earnings" on opening Stockholders' equity are**~~	~~**Interest Credited on Deferred Funds will be:**~~
~~Less than 10%~~	~~-0-~~
~~10 to 12~~	~~5%~~
~~12 to 14~~	~~6-1/2~~
~~14 to 16~~	~~8-1/4~~
~~16 to 18~~	~~10-1/2~~
~~18 to 20~~	~~13-1/2~~
~~20% and over~~	~~17[a]~~

~~— "Pretax earnings" will be Earnings Before Income Taxes as shown in the Annual Report to Stockholders except that such Earnings Before Income Taxes will be increased by an amount equal to aggregate management incentive compensation.~~

~~a(ii). Interest will be credited annually on deferred amounts of incentive earned based on performance in the years 1992-1994 based on the following schedule.~~

~~**If "Net Earnings" on Stockholders' Equity" are**~~	~~**Interest Credited on Deferred Funds will be:**~~
~~Less than 9%~~	~~8%~~
~~9 to 18~~	~~12~~
~~Over 18~~	~~16[b]~~

~~"Net Earnings" will be consolidated full year's net earnings and "Stockholders' Equity" is the average of the opening and closing consolidated stockholders' equity, in each case as shown in the Annual Report to stockholders.~~

~~a(iii). Interest will be credited annually on deferred amounts of incentive earned based on performance in 1995 or thereafter with interest compounded quarterly at a rate equal to 1 percentage point greater than the yield of 10 year Treasury Notes as reported for the last business day of the preceding calendar quarter.~~

~~b. Deferred incentive earnings earned in a given year will be credited to the participant's deferred account in February of the following year. Each February thereafter interest will be credited on the total deferred balance in the account, as of the beginning of the year, based on the Company's earnings performance for the prior year, per the schedule above.~~

~~5. Removal of Funds from the Plan.~~

a. ~~Deferred funds credited to a participant will be removed from the Deferred Compensation Plan in the event of:~~

a ~~For 1981 and thereafter: the higher of 17%, or the U.S. Treasury Bill rate, compounded quarterly, all as provided in footnote c.~~

b ~~The higher of 16% or the U.S. Treasury Bill rate, compounded quarterly, all as provided in footnote c.~~

~~- death,~~
~~- retirement, or~~
~~- termination of employment,~~

— ~~provided that in the event of death or retirement interest earned under the Plan will be credited to the participant's deferred account on a pro rata basis from the beginning of the year to the date of death or retirement.~~

b. ~~Terminations and retirements will be as defined under the Retirement Plan for Salaried Employees of The Stanley Works.~~

c. ~~For periods after December 31, 1987, such deferred funds removed from the Plan will be credited by the Company with interest compounded quarterly at a rate equal to the yield of 5 year Treasury Notes[c] as reported for the last business day of the preceding calendar quarter.~~

6. ~~General.~~

— ~~Interest credited on deferred funds under the Plan will not constitute earnings for pension plan purposes.~~

7. ~~Definition of Change in Control~~

a. ~~For purposes of this Plan, a "Change in Control of the Company" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:~~

(I) ~~any Person, as hereinafter defined, is or becomes the Beneficial Owner, as hereinafter defined, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates, as hereinafter defined) representing 25% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (III) below; or~~

(II) ~~the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board, as hereinafter defined, and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on December 17, 2003 or whose appointment, election or nomination for election was previously so approved or recommended; or~~

(III) ~~there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (i) a merger or consolidation which results in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or~~

c ~~The "U.S. Treasury Bill rate" referred to elsewhere shall be that interest rate equal to the yield for 3-month U.S. Treasury Bills as reported for the last business day of the preceding calendar quarter.~~

\- ~~becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or~~

(IV) ~~the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.~~

b. ~~Solely for purposes of this Section 7, and notwithstanding anything to the contrary in any other provision of this Plan, the following terms shall have the meanings indicated below:~~

1. ~~"Affiliates" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.~~

2. ~~"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.~~

3. ~~"Board" shall mean the Board of Directors of The Stanley Works.~~

4. ~~"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.~~

5. ~~"Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.~~

8. ~~Accelerated Payment Following a Change in Control.~~

~~Notwithstanding any of the preceding provisions of this Plan, as soon as possible following any Change in Control of the Company, payment shall be made, in cash, of the entire account of each participant hereunder. For purposes of calculating the amount of such payment, with respect to any period for which no interest on the deferred balance has yet been credited to any such participant's account under section 4 or section 5 hereof, pro-rated interest based on the rate of interest credited for the immediately preceding year (in the case of section 4 interest) or the immediately preceding quarter (in the case of section 5 interest) shall be credited to such account.~~

~~EXHIBIT 10(x)(a)~~

~~AMENDMENT~~
~~to~~
~~THE STANLEY WORKS 1990 STOCK OPTION PLAN~~

~~Pursuant to resolutions adopted by the Board of Directors of The Stanley Works on December 17, 2003, THE STANLEY WORKS 1990 STOCK OPTION PLAN is hereby amended as follows, effective December 17, 2003:~~

~~Section 3.05(c) is deleted and replaced with the following:~~

~~(c) A "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:~~

~~(I) any Person, as hereinafter defined, is or becomes the Beneficial Owner, as hereinafter defined, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates, as hereinafter defined) representing 25% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (III) below; or~~

~~(ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on December 17, 2003 or whose appointment, election or nomination for election was previously so approved or recommended; or~~

~~(III) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (i) a merger or consolidation which results in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or~~

~~(IV) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.~~

~~Section 3.05 is further amended by adding the following immediately following subsection (c):~~

~~(d) Solely for purposes of Section 3.05(c) and (d), and notwithstanding anything to the contrary in any other provision of this Plan, the following terms shall have the meanings indicated below:~~

1. ~~"Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.~~
2. ~~"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.~~
3. ~~"Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.~~

~~Mark J. Mathieu~~
~~Vice President, Human Resources~~

~~EXHIBIT 10(xiv)(a)~~

~~AMENDMENT~~
~~to~~
~~THE STANLEY WORKS 1997 LONG-TERM INCENTIVE PLAN~~

~~Pursuant to resolutions adopted by the Board of Directors of The Stanley Works on December 17, 2003, THE STANLEY WORKS 1997 LONG-TERM INCENTIVE PLAN is hereby amended as follows, effective December 17, 2003:~~

~~Section 9(c) is deleted and replaced with the following:~~

~~(c) A "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:~~

~~(I) any Person, as hereinafter defined, is or becomes the Beneficial Owner, as hereinafter defined, directly or indirectly, of securities of the Company, as hereinafter defined, (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (III) below; or~~

~~(II) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on December 17, 2003 or whose appointment, election or nomination for election was previously so approved or recommended;~~

~~(III) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (i) a merger or consolidation which results in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or~~

~~(IV) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.~~

~~Section 9 is further amended by adding the following immediately following subsection (c):~~

~~(d) Solely for purposes of Section 9(c) and (d), and notwithstanding anything to the contrary in any other provision of this Plan, the following terms shall have the meanings indicated below:~~

~~1. "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.~~

~~2. "Company" shall mean The Stanley Works.~~

~~3. "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.~~

____

~~Mark J. Mathieu~~
~~Vice President, Human Resources~~

~~**EXHIBIT 10(xv)(a)**~~

~~**AMENDMENT**~~
~~**to**~~
~~**THE STANLEY WORKS 2001 LONG-TERM INCENTIVE PLAN**~~

~~Pursuant to resolutions adopted by the Board of Directors of The Stanley Works on December 17, 2003, THE STANLEY WORKS 2001 LONG-TERM INCENTIVE PLAN is hereby amended as follows, effective December 17, 2003:~~

~~Section 9(c) is deleted and replaced with the following:~~

~~(c) A "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:~~

~~(I) any Person, as hereinafter defined, is or becomes the Beneficial Owner, as hereinafter defined, directly or indirectly, of securities of the Company, as hereinafter defined, (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (III) below; or~~

~~(II) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareowners was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on December 17, 2003 or whose appointment, election or nomination for election was previously so approved or recommended; or~~

~~(III) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (i) a merger or consolidation which results in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or~~

~~(IV) the shareowners of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by shareowners of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.~~

~~Section 9 is further amended by adding the following immediately following subsection (c):~~

~~(d) Solely for purposes of Section 9(c) and (d), and notwithstanding anything to the contrary in any other provision of this Plan, the following terms shall have the meanings indicated below:~~

1. ~~"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.~~

2. ~~"Company" shall mean The Stanley Works.~~

3. ~~"Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareowners of the Company in substantially the same proportions as their ownership of stock of the Company.~~

____

~~Mark J. Mathieu~~
~~Vice President, Human Resources~~

RETIREMENT AGREEMENT

This Retirement Agreement (this "Agreement") by and between The Stanley Works, a Connecticut corporation (the "Company"), and John M. Trani (the "Executive"), is entered into effective as of December 8, 2003 (the "Execution Date").

WHEREAS, the Executive is currently employed by the Company as its Chief Executive Officer and serves as Chairman of the Company's Board of Directors; and

WHEREAS, the Executive and the Company are parties to an Employment Agreement entered into as of January 1, 2000 (the "Employment Agreement"); and

WHEREAS, the Executive and the Company have agreed that effective as of December 31, 2003 the Executive will retire from his employment and cease to serve as a director of the Company;

WHEREAS, the Company and the Executive wish to set forth their mutual agreement as to the terms and conditions of such retirement;

NOW, THEREFORE, the Company and the Executive hereby agree as follows:

1. Retirement. Effective as of December 31, 2003 (the "Retirement Date"), the Executive shall retire from his employment with the Company and shall resign from his position as a member and Chairman of the Board of Directors of the Company and from all other positions the Executive then holds as an officer or member of the board of directors of any of the Company's subsidiaries or affiliates (the Company and all of its subsidiaries and affiliates are hereinafter referred to as the "Affiliated Entities"). The Executive hereby agrees to execute any and all documentation of such resignations upon request by the Company, but he shall be treated for all purposes as having so resigned effective as of the Retirement Date, regardless of when or whether he executes any such documentation.

2. Employment and Equity Agreements. During the period from the Execution Date to the Retirement Date, the Employment Agreement shall continue in full force and effect. Without limiting the generality of the foregoing, the Employment Agreement shall govern any termination of Executive's employment which occurs prior to the Retirement Date. Upon the Executive's retirement from the Company on the Retirement Date, the Employment Agreement shall terminate and shall thereafter be of no force and effect; provided, however, that (1) Sections 3(b), 6(f)(ii), 7(a) and 8 of the Employment Agreement shall survive such termination, (2) the Executive shall be entitled to unpaid Base Salary (as defined in the Employment Agreement) and unpaid expenses (in accordance with Section 5(h) of the Employment Agreement) to the Retirement Date, and (3) the Executive shall be entitled to all other unpaid amounts, entitlements and benefits (whether earned or due) to which the Executive is entitled under the Company's compensation and benefit plans (to the extent not otherwise addressed in Section 3 hereof) in accordance with the terms and conditions of such plans and any underlying agreements evidencing awards under such plans, including, but not limited to, the incentive plan for the second half of fiscal year 2003 and any long-term incentive plan (but excluding any annual incentive plan). For the avoidance of doubt, the Executive shall be treated as a retiree pursuant to the plans, policies, programs, arrangements of, or other agreements with, the Company and, as such, his outstanding stock options (all of which options, to the extent not vested as of the Execution Date, will become vested as of the Retirement Date) shall remain exercisable for the remainder of their original terms.

3. Retirement Benefits. If the Executive (a) continues in the employment of the Company until the Retirement Date, (b) executes the release (substantially in the form attached hereto as Exhibit A) and (c) does not revoke such release prior to the Revocation Date (as defined in Exhibit A), then, subject to the Executive's compliance with Sections 7(a) and 8 of the Employment Agreement, as set forth in Section 7 of this Agreement:

(i) in accordance with the Company's regular payroll practices, commencing immediately following the Revocation Date (but in no event prior to January 1, 2004), the Executive shall receive 24 monthly payments from the Company of $243,750;

(ii) commencing as of January 1, 2006, the Executive shall be entitled to receive the defined benefit plan benefits referred to in Section 5(c) of the Employment Agreement (taking into account the September 17, 1997 letter to the Executive from the Company) as if he had continued to remain employed with the Company until December 31, 2005 at an annualized rate of pay of $2,925,000 and based on his actual age on December 31, 2005. In respect of such defined benefit plan benefits, the parties agree that $113,742.82 shall be payable by the Company monthly in the form of a 100% joint and survivor annuity, less the aggregate monthly amount payable to the Executive pursuant to the Company's tax-qualified pension plans. For the avoidance of doubt, payments under this Section 3(ii) shall not be subject to offset or the Executive's continued compliance with Sections 7(a) and 8 of the Employment Agreement;

(iii) in accordance with Section 6(e)(iii) of the Employment Agreement, the Company shall pay to the Executive, as soon as practicable following the Retirement Date, a bonus for 2003 in an amount to be determined pursuant to the Company's annual incentive plan, which shall in no event be less than $1,200,000;

(iv) the Executive and his eligible dependents shall be provided with medical, life insurance and other welfare coverage until December 31, 2005 on the same basis and subject to the same terms and conditions as would be provided to him under the Employment Agreement if the Executive had terminated his employment thereunder for Good Reason;

(v) from the Retirement Date until December 31, 2005, the Company shall continue to pay the premiums under the insurance policies attached as Exhibit B to the Employment Agreement. When the Company's obligations to pay such premiums cease the Company shall have the right to receive, for each policy, (1) the lesser of (x) the sum of all premiums paid by the Company for which the Company has not received reimbursement, and (y) the cash surrender value of the policy, plus (2) the amount paid to the Executive's prior employer pursuant to the first sentence of Section 5(d) of the Employment Agreement; and

(vi) until December 31, 2006, the Company shall provide, at its expense, the Executive with (1) office space in New Britain, Connecticut suitable to his position as the former Chief Executive Officer of the Company and (2) executive secretarial services.

4. Legal Fees. The Company shall pay directly or reimburse the Executive for reasonable legal fees and expenses incurred in connection with the negotiation and preparation of this Agreement; provided, however, that such payment or reimbursement obligation shall not exceed $25,000 in the aggregate.

5. The Executive's Covenants. The Executive shall make himself available to the Company following the Retirement Date to assist the Affiliated Entities, as may be requested by the Company at mutually convenient times and places, with respect to pending and future litigations, arbitrations, governmental investigations or other dispute resolutions relating to matters that arose during the Executive's employment with the Company. The Company will reimburse the Executive for all reasonable expenses and costs he may incur as a result of providing assistance under this Section 5, upon receipt of proper documentation thereof. For the avoidance of doubt, the benefits to be provided to the Executive pursuant to Section 2 or 3 hereof shall not be subject to offset in the event of a breach or alleged breach by the Executive of this Section 5.

6. Section 7 of the Employment Agreement. Nothing in Section 7 of the Employment Agreement shall be construed in a manner that would prevent the Executive (1) from providing a personal reference to any officer, employee or consultant upon the unsolicited request of such individual or (2) from continuing as a member of the board of directors of any entity on which the Executive is serving on the Retirement Date.

7. Mitigation. The Executive shall be under no obligation to mitigate payments made hereunder by seeking employment and there shall be no offset against amounts due the Executive under this Agreement on account of (i) any remuneration attributable to any subsequent employment that he may obtain or (ii) except as otherwise provided in this Section 7, any claims the Company may have against the Executive. In the event of a violation of Section 7(a) or Section 8 of the Employment

~~Agreement, the Company's obligation to continue to pay the Executive the payments in Section 3(i) or to provide the benefits in Section 3(iv), Section 3(v) and Section 3(vi) shall cease as of the date of such breach.~~

~~8. Release. The Company and the Executive shall each execute the release attached hereto as Exhibit A on or prior to the Retirement Date.~~

~~9. Entire Agreement; Other Benefits. This Agreement shall be effective from the Execution Date and sets forth the entire agreement of the Company and the Executive with respect to the subject matter hereof. The Executive expressly acknowledges and agrees that in the event of his retirement on the Retirement Date, except as specifically set forth in this Agreement, he will not be entitled to receive any severance pay, severance benefits, compensation or employee benefits of any kind whatsoever from any of the Affiliated Entities. If the Executive employment terminates for any reason prior to the Retirement Date, this Agreement shall be null and void and of no further effect and the Employment Agreement shall remain in full force and effect, in which event the Executive will have preserved all rights pursuant to such agreement, including, but not limited to, any rights pursuant to Section 6(a)(iv)(F).~~

~~10. Miscellaneous. Sections 9(a) and 9(b) (Successors; Binding Agreement), Section 11 (Miscellaneous) and Section 13 (Validity) of the Employment Agreement shall be deemed to be fully incorporated into this Agreement, provided that any reference to "this Agreement" in such sections shall be deemed to refer to this Retirement Agreement and not the Employment Agreement.~~

~~11. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before one arbitrator to be mutually agreed upon by the parties hereto. In the event the parties are unable to agree upon an arbitrator, the Company and the Executive shall each appoint an arbitrator, and these two arbitrators shall select a third, who shall be the arbitrator. Arbitration shall be held in Hartford, Connecticut in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided however, that the Company shall be entitled to seek a restraining order or injunction in any court of competent jurisdiction to prevent any continuation of any violation of the provisions of Section 7 or 8 of the Employment Agreement and the Executive hereby consents that such restraining order or injunction may be granted without the necessity of the Company's posting any bond, it being acknowledged and agreed that any breach or threatened breach of the provisions of Section 7(a),8(a)(i) or 8(a)(ii) of the Employment Agreement will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company. Each party shall bear its own costs and expenses (including, without limitation, legal fees) in connection with any arbitration proceeding instituted hereunder; provided, however, that to the extent the Executive prevails, his costs and expenses shall be promptly reimbursed by the Company.~~

~~12. Notices. All notices and other communications hereunder shall be in writing; shall be delivered by hand delivery to the other party or dispatched by private courier such as Federal Express, provided that in each case confirmation of receipt is obtained, or mailed by registered or certified mail, return receipt requested, postage prepaid; shall be deemed delivered upon actual receipt; and shall be addressed as follows:~~

~~If to the Executive:~~

~~John M. Trani~~
~~At his address on file with the Company~~

~~With a copy to:~~

~~The Law Offices of Joseph E. Bachelder~~
~~780 Third Avenue~~
~~New York, New York 10017~~
~~Attention: Joseph E. Bachelder, Esq.~~

~~If to the Company:~~

~~The Stanley Works Company~~
~~1000 Stanley Drive~~
~~New Britain, Connecticut 06053~~
~~Attention: General Counsel~~

~~With a copy to:~~

~~Stuart N. Alperin, Esq.~~
~~Skadden, Arps, Slate, Meagher & Flom LLP~~
~~Four Times Square~~
~~New York, New York 10036~~

~~or to such other address as either party shall have furnished to the other in writing in accordance herewith.~~

~~13. Tax Withholding. Notwithstanding any other provision of this Agreement, the Company may withhold from any amounts payable under this Agreement, or any other benefits received pursuant hereto, such minimum Federal, state and/or local taxes as shall be required to be withheld under any applicable law or regulation.~~

~~14. Counterparts. This Agreement may be executed in one or more counterparts, including by facsimile, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.~~

~~IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first set forth above.~~

~~THE STANLEY WORKS~~

~~By:~~ ______________________________

~~Name: Derek V. Smith~~
~~Title: Director~~

____

~~John M. Trani~~

~~EXHIBIT A~~

~~MUTUAL RELEASE~~

~~(a) **John M. Trani** ("Releasor") for and in consideration of benefits provided pursuant to a Retirement Agreement with The Stanley Works entered into effective as of December ___,2003 (the "Retirement Agreement"), does for himself and his heirs, executors, administrators, successors and assigns, hereby now and forever, voluntarily, knowingly and willingly release and discharge The Stanley Works and its parents, subsidiaries and affiliates (collectively, the "Company Group"), together with their respective present and former partners, officers, directors, employees and agents, and each of their predecessors, heirs, executors, administrators, successors and assigns (but as to any partner, officer, director, employee or agent, only in connection with, or in relationship to, his to its capacity as a partner, officer, director, employee or agent of the Company and its subsidiaries or affiliates and not in connection with, or in relationship to, his or its personal capacity unrelated to the Company or its subsidiaries or affiliates) (collectively, the "Company Releasees") from any and all charges, complaints, claims, promises, agreements, controversies, causes of action and demands of any nature whatsoever, known or unknown, suspected or unsuspected, which against the Company Releasees, jointly or severally, Releasor or Releasor's heirs, executors, administrators, successors or assigns ever had, now have or hereafter can, shall or may have by reason of any matter, cause or thing whatsoever arising from the~~

~~beginning of time to the time Releasor executes this release arising out of or relating in any way to Releasor's employment or director relationship with the Company, or the termination thereof, including but not limited to, any rights or claims arising under any statute or regulation, including the Age Discrimination in Employment Act of 1967, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans with Disabilities Act of 1990, or the Family and Medical Leave Act of 1993, each as amended, or any other federal, state or local law, regulation, ordinance or common law, or under any policy, agreement, understanding or promise, written or oral, formal or informal, between any Company Releasee and Releasor. Releasor shall not seek or be entitled to any recovery, in any action or proceeding that may be commenced on Releasor's behalf in any way arising out of or relating to the matters released under this Release. **Notwithstanding the foregoing, nothing herein shall release any Company Releasee from any claim or damages based on (i) the Executive's rights under the Retirement Agreement, (ii) any right or claim that arises after the date the Executive executes this release, (iii) the Executive's eligibility for indemnification in accordance with applicable laws or the certificate of incorporation or by-laws of the Company (or any affiliate or subsidiary) or any applicable insurance policy, with respect to any liability the Executive incurs or incurred as a director, officer or employee of the Company or any affiliate or subsidiary (including as a trustee, director or officer of any employee benefit plan) or (iv) any right the Executive may have to obtain contribution as permitted by law in the event of entry of judgment against the Executive as a result of any act or failure to act for which the Executive and the Company or any affiliate or subsidiary are held jointly liable.**~~

~~(b) Releasor has been advised to consult with an attorney of Releasor's choice prior to signing this release, has done so and enters into this release freely and voluntarily.~~

~~(c) Releasor has had in excess of twenty-one (21) calendar days to consider the terms of this release. Once Releasor has signed this release, Releasor has seven (7) additional days to revoke Releasor's consent and may do so by writing to the Company as provided in Section 12 of the Retirement Agreement. Releasor's release shall not be effective, and no payments or benefits shall be due under Section 3 of the Retirement Agreement, until the eighth day after Releasor shall have executed this release (the "Revocation Date") and returned it to the Company, assuming that Releasor has not revoked Releasor's consent to this release prior to such date.~~

~~(d) The Company, for and in consideration of the Executive's covenants under the Retirement Agreement, on behalf of itself and the other members of the Company Group and any other Company Releasee, their respective successors and assigns, and any and all other persons claiming through any member of the Company Group or such other Company Releasee, and each of them, does hereby now and forever, voluntarily, knowingly and willingly release and discharge, the Releasor~~

~~and dependents, administrators, agents, executors, successors, assigns, and heirs, from any and all charges, complaints, claims, promises, agreements, controversies, causes of action and demands of any nature whatsoever, known or unknown, suspected or unsuspected, which against the Releasor, jointly or severally, the Company and each other member of the Company Group or any other Company Releasee, their respective successors and assigns, and any and all other persons claiming through any member of the Company Group or such other Company Releasee ever had, now have or hereafter can, shall or may have by reason of any matter, cause or thing whatsoever arising from the beginning of time to the time the Company executes this release arising out of or relating to the Executive's employment or director relationship with the Company or the termination thereof, including, but not limited to, any claim, demand, obligation, liability or cause of action arising under any federal, state or local employment law or ordinance, tort, contract or breach of public policy theory or alleged violation of any other legal obligation. **Notwithstanding the foregoing, nothing herein shall release the Releasor and his dependents, administrators, agents, executors, successors, assigns, and heirs, (i) in respect of the Company's rights under the Retirement Agreement for any breach by the Executive of such agreement on or after the Execution Date of the Retirement Agreement, (ii) from any claims or damages based on any right or claim that arises after the date the Company executes this release or (iii) any right the Company or any affiliate or subsidiary may have to obtain contribution as permitted by law in the event of entry of judgment against it as a result of any act or failure to act for which the Company or any affiliate or subsidiary and the Executive are jointly liable.**~~

~~(e) The Company's release shall become effective on the Revocation Date, assuming that Releasor shall have executed this release and returned it to the Company and has not revoked Releasor's consent to this release prior to the Revocation Date.~~

~~(f) In the event that any one or more of the provisions of this release shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remainder of this release shall not in any way be affected or impaired thereby.~~

~~This release shall be governed by the law of the State of Connecticut without reference to its choice of law rules.~~

~~THE STANLEY WORKS~~

~~By: ______________________________~~
~~Name: Derek V. Smith~~
~~Title: Director~~

~~Signed as of this __ day of December, 2003.~~

____
~~John M. Trani~~

~~Signed as of this __ day of December, 2003.~~

~~EXHIBIT 10(xxiii)~~

~~The Stanley Works~~

~~John Trani~~
~~Chairman & CEO~~
~~1000 Stanley Drive~~ ~~860-827-3990~~
~~New Britain, CT 06053~~

~~March 5, 2003~~

~~Mr. Joseph J. DeAngelo~~
~~175 Matsonford Road~~
~~Radnor, PA 19087~~

~~Dear Joe:~~

~~I am pleased to confirm our offer, subject to Board approval, for the position of Executive Vice President – The Tools Group, reporting to me. Employment will continue as long as mutually acceptable. The position will be based in New Britain, Connecticut.~~

~~Your base salary will be $425,000 per year, paid monthly. You will also participate in the Corporate Management Incentive Compensation Program with an incentive payout of $300,000 guaranteed for 2003, which is payable in February 2004. You will also receive four weeks of vacation per year.~~

~~On joining the Company, you will receive a grant of a 400,000 share stock option under the terms of the 2001 Long Term Incentive Plan. The option purchase price will be the price of the stock on the date of the Board of Directors Meeting following your start date. 50% of this option grant becomes exercisable 36 months following the grant date, and 50% becomes exercisable 60 months following the grant date. Starting in 2003, your stock options will be targeted at the 50,000 level annually. On joining the Company, you will also receive a grant equivalent to the value of the 56,250 RSUs you currently have, including dividend equivalent rights on these units. The current dividend payment rate per share is $1.02. The shares underlying these units will be issued to you per the attached schedule so long as you are still in Stanley's employ. In addition, your will participate in our three year Long-Term Performance Award Plan. Bonus values for you under this Plan will be $600,000 @ threshold; $720,000 @ target and $900,000 @ maximum. The specific performance metrics are currently pending Board approval.~~

~~As a senior Officer of The Stanley Works, you will participate in current and future executive benefit programs including our Financial Planning Service, Executive Life Insurance Program, Change of Control, Executive Car Program and the Executive Physical Program. Details of the executive benefit programs are attached.~~

~~In addition, the Company's Employee Stock Purchase Program (ESPP) allows you to purchase company stock up to 15% of your base pay annually (capped at $25,000), at 15% below the market price. The Company's 401k Plan will match 50% of employee contributions up to 7% of your pay. If you are terminated without cause for reasons other than for violations of company rules, misconduct or gross negligence, you will be eligible for separation pay equal to 12 months at your then current annual base salary. Eligibility to receive any separation benefits will be contingent upon signing a release and waiver agreement provided by the Company.~~

~~The Company will cover the Enhanced relocation costs associated with the sale of your current home and the purchase your new home in Connecticut. In addition, the Company will provide you temporary living accommodations until you are situated in your new home.~~

~~The commencement of employment is contingent upon our Medical Department determining that you are physically suited for the duties of the position. This includes a drug-screening test. Please contact Lisa Gonzalez at 860-827-3881 if you have any questions. Medical forms attached.~~

~~The Stanley Works Health Plans become effective on the first of the month following your date of employment. They will be explained to you in detail on your first day of employment. You can usually extend your existing medical coverage for a limited period of time to cover any lapse between the plans.~~

~~Joe, this is the key role in driving excellence throughout the Company. You will lead a major effort that will help make it happen. I am delighted that you are considering joining our team. If you have any questions, please give me a call at 860-827-3990 or Mark Mathieu at 860-827-3818.~~

~~Please indicate your acceptance by signing below.~~

~~Sincerely,~~

____

~~John Trani~~
~~Chairman & CEO~~

~~I, ____ hereby accept the offer of employment as presented above on this ______ day of ______________ 2002. I expect my first day of employment to be ___/___/___.~~

~~Signature: ____________________________~~

~~cc: Carol L'Heureux, Executive Compensation & Relocation~~
~~Mark Mathieu, Vice President, Human Resources~~

~~Enclosures: –~~

- ~~2001 Long Term Incentive Plan~~
- ~~Deferred Compensation Plan (December 19, 1995)~~
- ~~Executive Life Insurance Program~~
- ~~Financial Planning Service~~
- ~~Executive Physical Program~~
- ~~Employee Benefits Booklet~~
- ~~FTC Consent Order~~
- ~~Quest Program~~
- ~~Executive Auto Program~~
- ~~Change of Control~~
- ~~Relocation (Enhanced)~~
- ~~Account Value Plan~~

~~Stanley Restricted Stock~~

~~Issue Date~~		~~# GE Shares~~	
~~7/03~~	-	~~6,250~~	-
~~4/04~~	-	~~16,250~~	-
~~6/05~~	-	~~7,500~~	-
~~7/06~~	-	~~3,750~~	-
~~7/07~~	-	~~6,250~~	-
~~7/08~~	-	~~16,250~~	-
~~Total~~	-	**~~56,250~~**	-

~~EXHIBIT 10(xxiv)~~

~~EXECUTION COPY~~

~~EMPLOYMENT AGREEMENT~~

~~EMPLOYMENT AGREEMENT (the "**Agreement**") by and between The Stanley Works, a Connecticut corporation (the "**Company**"), and John F. Lundgren (the "**Executive**"), dated February 3, 2004 and effective as of the Effective Date (as defined in Section 1 below).~~

~~W I T N E S S E T H:~~

~~WHEREAS, the Company wishes to provide for the service and employment of the Executive with the Company, and the Executive wishes to provide service to the Company, in accordance with the terms and conditions set forth in this Agreement;~~

~~NOW, THEREFORE, it is hereby agreed as follows:~~

~~1. TERM. The term of employment of the Executive by the Company hereunder (the "**Term**") shall commence on March 1, 2004 (the "**Effective Date**"), and shall continue until the occurrence of a Date of Termination (as defined in Section 4 below).~~

~~2. POSITION AND DUTIES; LOCATION.~~

~~(a) During the Term, the Executive shall serve as the Chief Executive Officer and Chairman of the Company with such duties and responsibilities as are customarily assigned to such positions, and such other duties and responsibilities commensurate therewith as may from time to time be assigned to him by the Board of Directors of the Company (the "**Board**"). The Executive shall report solely to the Board. Effective as of the Effective Date, the Executive shall be appointed to the Board and elected as Chairman of the Board. At the Company's request, upon termination of the Executive's employment with the Company for any reason, the Executive shall (1) promptly resign from the Board and from all other positions the Executive then holds as an officer or member of the board of directors of any of the Company's subsidiaries or affiliates and (2) execute any and all documentation of such resignations.~~

~~(b) During the Term, the Executive shall devote his full business time and effort to the performance of his duties hereunder. It shall not be considered a violation of the foregoing for the Executive to manage his personal investments or, subject to the approval of the Board, to serve on corporate, industry, civic or charitable boards or committees, so long as such activities do not significantly interfere with the performance of the Executive's duties hereunder.~~

~~(c) During the Term, the Executive shall be based at the Company's principal headquarters in New Britain, Connecticut, except for travel reasonably required for the performance of the Executive's duties hereunder.~~

~~3. COMPENSATION AND BENEFITS.~~

~~(a) BASE SALARY. During the Term, the Executive shall receive a base salary at the annual rate of $750,000. The Annual Base Salary (as defined below) shall be payable in accordance with the Company's regular payroll practice for its senior executives, as in effect from time to time. During the Term, the Annual Base Salary shall be reviewed at least annually by the Compensation and Organization Committee of the Board (the "**C&O Committee**") for possible increase. Any increase in the Annual Base Salary shall not limit or reduce any other obligation of the Company under this Agreement. Once increased, the Annual Base Salary shall not thereafter be decreased, except pursuant to across-the-board salary reductions similarly affecting all senior Company executives. The term "**Annual Base Salary**" shall refer to the Annual Base Salary as in effect from time to time.~~

~~(b) ANNUAL CASH BONUS. For each fiscal year of the Company during the Term, the Executive shall participate in the Company's Management Incentive Compensation Plan, as amended, or any successor plan thereto (the "**MICP**"). The Executive's annual target bonus opportunity pursuant to the MICP shall equal 100% (the "**Target Annual Bonus Percentage**") of the Annual Base Salary in effect for the Executive at the beginning of such fiscal year, with a maximum potential award equal to 200% of such Annual Base Salary. Any cash bonuses payable to the Executive will be paid at the time the Company normally pays such bonuses to its senior executives.~~

~~(c) 2003 BONUS FROM PRIOR EMPLOYER. To the extent that the Executive's prior employer (the "**Prior Employer**") fails to pay to the Executive any portion of Executive's 2003 annual bonus of $537,192 (less applicable withholding taxes) prior to the twentieth (20^{th}) day following the Customary Payment Date (as defined below), the Company, subject to the provisions of the succeeding sentence, shall make such payment to the Executive (less applicable withholding taxes) within five (5) business days thereafter. As a condition of receiving payment from the Company under this Section 3(c), the Executive shall first be required to make a prompt written demand to the Prior Employer in respect of such bonus if it is not paid to him within ten (10) business days after the date the Prior Employer makes such bonus payments to its officers generally (the "**Customary Payment Date**"). If the Executive receives payment from the Prior Employer in respect of his 2003 annual bonus after the date the Company has made a payment to him in respect of such bonus, then the Executive shall notify the Company and promptly remit to the Company, to the extent permitted by law, the amount previously paid to him by the Company pursuant to this Section 3(c).~~

~~(d) INITIAL OPTION GRANT. On the Effective Date, the C&O Committee shall grant to the Executive a nonqualified option (the "**Option**") to purchase 250,000 shares of the Company's common stock pursuant to the Company's 2001 Long-Term Incentive Plan (the "**LTIP**"). The Option shall be evidenced by a stock option certificate and agreement substantially in the form attached hereto as Exhibit A.~~

~~(e) INITIAL RESTRICTED STOCK UNIT GRANT. On the Effective Date, the C&O Committee shall grant to the Executive 75,000 Restricted Stock Units pursuant to the LTIP. The grant of Restricted Stock Units shall be evidenced by a restricted stock unit certificate and agreement substantially in the form attached hereto as Exhibit B.~~

~~(f) OTHER BENEFITS. While the Executive is employed during the Term: (i) the Executive shall be entitled to participate in all tax-qualified and non-qualified savings, employee stock ownership, employee stock purchase, deferred compensation and retirement and supplemental retirement plans that are generally made available to the Company's senior officers, and shall be entitled to participate in all fringe benefit and perquisite practices, policies and programs of the Company made available to the senior officers of the Company or to its Chief Executive Officer, including but not limited to the Company's executive car program, financial planning services, executive life insurance program, executive long-term disability program and executive physical program (provided that in each case, such participation shall be no less favorable than that available to senior officers of the Company); (ii) the Executive and/or the Executive's eligible dependents, as the case may be, shall be eligible for participation in, and shall receive all benefits under, all welfare benefit plans, practices, policies and programs provided by the Company, including, any medical (with COBRA equivalent premiums paid on a gross-up basis during any waiting period that is not waived), flexible spending, prescription, dental, short- and long-term disability, employee life insurance, group life insurance, accidental death and travel accident insurance plans and programs to the same extent, and subject to the same terms and conditions, as are made available to the senior officers of the Company; and (iii) the Executive shall be eligible to receive, on terms and conditions no less favorable than those generally made available to the other senior officers of the Company, ongoing equity grants and other long-term incentives (in addition to those specified above) as may be determined by the C&O Committee from time to time.~~

~~(g) VACATION; RELOCATION; TEMPORARY LIVING EXPENSES. The Executive shall be entitled to four (4) weeks paid vacation per year. The Company shall reimburse the Executive in accordance with the Company's Relocation Benefits Program Enhanced, effective November 21,~~

~~2001 (the "Relocation Policy") for expenses incurred in connection with the relocation of the Executive and his "significant other" to the New Britain, Connecticut area. The Company shall, if requested by the Executive, extend the duration of the Relocation Policy by an additional six (6) months with respect to items that would otherwise be payable or reimbursable within the customary twelve (12) month limit, but such six (6) month extension shall not apply to any other time limits in the Relocation Policy (e.g., reimbursement of costs of selling the Executive's current residence and closing costs for a new residence shall be extended to 18 months, but the 60-day time limit for storage of household goods shall not be extended). The Company shall also provide, at no cost to the Executive, a furnished corporate apartment or other furnished residence reasonably acceptable to the Executive for the Executive and his "significant other" in the New Britain, Connecticut area; provided, however, that in no event shall such living accommodations be provided for longer than a twelve (12) month period. In addition, to the extent the Company's Relocation Policy does not cover expenses incurred by the Executive in connection with his relocation, the Company shall reimburse the Executive for such expenses upon the Executive's submission of documentation relating thereto reasonably acceptable to the Company; provided, however, that the Company shall not be required to reimburse the Executive for aggregate expenses in excess of $200,000.~~

~~(h) EXPENSES. The Company shall pay or reimburse the Executive for reasonable out-of-pocket expenses incurred by the Executive during the Term in the performance of the Executive's services under this Agreement, in accordance with Company policy for its senior executives.~~

~~(i) CHANGE IN CONTROL SEVERANCE AGREEMENT. On the Effective Date, the Executive and the Company shall enter into a Change in Control Severance Agreement attached hereto as Exhibit C.~~

~~(j) PENSION MAKE-WHOLE. The Company shall provide the Executive with a supplemental retirement benefit to make the Executive whole for the retirement benefits he would reasonably expect to receive from the Prior Employer had he continued his employment with the Prior Employer. The supplemental retirement benefit will be calculated based on the Executive's historic compensation from the Prior Employer, projected forward at an assumed rate of increase of 5% per year. The supplemental retirement benefit that the Company will provide shall be offset by (i) retirement benefits accrued under defined benefit plans and arrangements with the Prior Employer (including retirement benefits accrued with the entity that the Prior Employer acquired, but only if and to the degree such retirement benefits would have been offset by such Prior Employer under its applicable plan or arrangement) and (ii) other retirement benefits accrued under Company sponsored plans that do not represent the Executive's elective deferrals (*e.g.*, 401(k) contributions). The Company agrees that if (i) it terminates the Executive's employment for any reason other than for Cause or (ii) the Executive terminates his employment hereunder for Good Reason (each as defined in Section 4 below) prior to September 3, 2006, the Executive will be treated as having retired from the Prior Employer at age 55 for purposes of computing the supplemental retirement benefit payable by the Company under this Section 3(j). The manner in which such supplemental retirement benefit shall be calculated is set forth by way of example on Exhibit D attached hereto.~~

~~(k) INDEMNIFICATION. To the fullest extent permitted by the Company's certif-icate of incorporation and by-laws, or, if greater, by the laws of the State of Connecticut, the Company shall promptly indemnify and hold harmless the Execu-tive for all amounts (including, without limita-tion, judg-ments, fines, settle-ment pay-ments, loss-es, damages, costs, expenses (in-cluding reasonable attorneys' fees), ERISA excise taxes, or other liabilities or penalties and amounts paid or to be paid in settlement) incurred or paid by the Executive in connection with any action, proceeding, suit or investi-gation (the "**Proceeding**") to which the Executive is made a party, or is threatened to be made a party, by reason of the fact that he is or was a director, officer or employee of the Company or is or was serving at the request of the Company as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, programs or arrange-ments, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity. Such indemnification shall continue even if the Executive has ceased to be a director, employee or agent of the Company or other affiliated entity~~

~~and shall inure to the benefit of the Executive's heirs, executors and administrators. The Company shall advance to the Executive all reasonable costs and expenses incurred by him in connec-tion with a Proceeding within fifteen (15) days after receipt by the Company of a written request from the Executive for such ad-vance. Such request shall include an undertaking by the Execu-tive to timely repay the amount of such ad-vance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expens-es. The Compa-ny also agrees to main-tain a director's and officers' lia-bility insur-ance policy covering the Execu-tive to the extent the Company provides such cover-age for its other senior executive officers. Fol-low-ing the Term, the Compa-ny shall con-tin-ue to main-tain a directors' and officers' liability insurance policy for the benefit of the Execu-tive which is no less favorable than the policy covering other senior officers of the Company.~~

~~(l) RETIREE MEDICAL. So long as the Executive's employment hereunder has not been terminated by the Company for Cause (as defined in Section 4(b) below) or been voluntarily terminated by the Executive within two (2) years following the Effective Time other than for Good Reason (as defined in Section 4(c) below), the Company shall ensure that the Executive and his eligible dependents shall have access to retiree medical insurance coverage from a reputable carrier until the Executive shall first become eligible for Medicare (or in the event of his death, until he would have first become eligible). Such coverage shall be on terms and conditions no less favorable than generally made available to other Company retirees (or if there are no other such retirees, on terms and conditions reasonably acceptable to the Executive). The cost of such coverage shall be borne solely by the Executive (or in the event of his death, his eligible dependents), except to the extent that the Company generally bears such costs for its senior executives.~~

~~4. TERMINATION OF EMPLOYMENT.~~

~~(a) DEATH OR DISABILITY. The Executive's employment shall terminate automatically upon the Executive's death during the Term. The Company shall be entitled to terminate the Executive's employment because of the Executive's Disability during the Term. "**Disability**" means that the Executive is disabled within the meaning of the Com-pany's long-term disability policy for salaried employees (or any successor thereto) or, if there is no such policy in effect, that (i) the Executive has been substantially unable, for 120 business days within a period of 180 consecutive business days, to perform the Executive's duties under this Agreement, as a result of physical or mental illness or injury, and (ii) a physician selected by the Company and the Executive or the Execu-tive's legal representative has determined that the Executive is totally and permanently disabled. In the event that the Executive and the Company cannot agree as to a physician to make such a determination, each shall appoint a physician and those two (2) physicians shall select a third who shall make such determination in writing. A termina-tion of the Executive's employment by the Company for Disability shall be commu-nicated to the Executive by written notice, and shall be effective on the 30th day after receipt of such notice by the Executive (the "**Disability Effective Time**"), unless the Executive returns to full-time performance of the Executive's duties before the Disability Effective Time.~~

~~(b) TERMINATION BY THE COMPANY. The Company may terminate the Executive's employment during the Term for Cause or without Cause.~~

> ~~(i) "**Cause**" is defined as (A) the Executive's willful and continued failure to substantially perform his duties with the Company (other than any such failure resulting from his incapacity due to physical or mental illness) that has not been cured within 30 days after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed his duties, (B) the willful engaging by the Executive in conduct which is demonstrably and materially injurious to the Company or its affiliates, (C) the Executive's conviction of (or plea of nolo contendere to) any felony or any other crime involving dishonesty, fraud or moral turpitude, (D) any violation of the Company's policies relating to compliance with applicable laws that has a material adverse effect on the Company or its affiliates or (E) the Executive's breach of any restrictive covenant set forth in Section 8 hereof. For purposes of clauses (A) and (B) of this definition, no act, or failure to act, on the~~

> ~~Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his act, or failure to act, was in the best interest of the Company.~~

~~(ii) A termination of the Executive's employment for Cause shall be not be effective unless it is accomplished in accordance with the following proce-dures. The Board shall give the Executive written notice ("**Notice of Termination for Cause**") of its intention to terminate the Executive's employment for Cause, setting forth in detail the specific conduct (including any failure to act) of the Executive that it considers to constitute Cause, and proposing the date, time and place (which, in each case, shall be subject to the Executive's approval; provided that such approval shall not be unreasonably withheld) of the Special Board Meeting for Cause. The "**Special Board Meeting for Cause**" means a meeting of the Board called and held specifically and exclusively for the purpose of considering the Executive's termina-tion for Cause, that takes place not less than forty-five (45) business days after the Executive receives the Notice of Termination for Cause. The Board shall provide the Executive an opportunity, together with counsel, to be heard at the Special Board Meeting for Cause. The Executive's termination for Cause shall be effective when and if a resolution is duly adopted at the Special Board Meeting for Cause stating that, in the good faith opinion of a majority of the Board (other than the Executive), the Execu-tive's conduct constitutes Cause under this Agreement.~~

~~(c) GOOD REASON. The Executive may terminate employment for Good Reason or without Good Reason.~~

~~(i) "**Good Reason**" is defined as, without the Executive's consent, (A) the assignment to the Executive of any duties inconsistent with his status as the Company's Chief Executive Officer or a material adverse alteration in the nature or status of the Executive's responsibilities, unless the Company has cured such events within ten (10) business days after the receipt of written notice thereof from the Executive, (B) a reduction in the Executive's Annual Base Salary or Target Annual Bonus Percentage, except for across-the-board salary reductions similarly affecting all senior Company executives, (C) the relocation of the Company's headquarters to a location more than thirty-five (35) miles from the location of such headquarters on the Effective Date, (D) the failure of the Execu-tive to be elected or re-elected as Chairman of the Board, or (E) the Company's election not to renew the Change in Control Severance Agreement.~~

~~(ii) A termination of employment by the Executive for Good Reason shall be effectuated by giving the Company written notice ("**Notice of Termination for Good Reason**") of the termination, setting forth in reasonable detail the specific conduct of the Company that constitutes Good Reason; provided, however, that no termination by the Executive shall be treated as a termination for Good Reason unless the Notice of Termination for Good Reason is given within forty-five (45) business days following the date the Executive first has knowledge of the event or circumstance alleged to constitute Good Reason. A termination of employment by the Executive for Good Reason shall be effective fifteen (15) days following the date when the Notice of Termination for Good Reason is given, unless the event or circumstance constitut-ing Good Reason is remedied by the Company in accordance with the foregoing.~~

~~(iii) A termination of the Executive's employment by the Executive without Good Reason shall be effected by giving the Company 30 days advance written notice of the termination.~~

~~(d) DATE OF TERMINATION. The "**Date of Termination**" means the date of the Executive's death, the Disability Effective Time or the date on which the termination of the Executive's employment by the Company for Cause or without Cause or by the Executive for Good Reason or without Good Reason is effective.~~

~~5. OBLIGATIONS OF THE COMPANY UPON TERMINATION.~~

~~(a) OBLIGATIONS ON ANY TERMINATION. If the Executive's employment hereunder terminates for any reason, then (1) the Company shall pay to the Executive, or his estate, beneficiary or legal representative, as applicable, in a lump sum in cash within ten (10) business days after the Date of Termination, (i) any portion of the Executive's Annual Base Salary through the Date of Termination that has not yet been paid, (ii) any earned annual bonus that has not been paid for any previous fiscal year, (iii) any unpaid amount due under Section 3(c) hereof, and (iv) any amount needed to reimburse the Executive for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy prior to the Date of Termination, (2) the Company shall also pay or provide to the Executive (or the Executive's estate, beneficiary, or legal representative, as the case may be) all compensation and benefits payable to the Executive under the terms of the Com-pany's compensation and benefit plans, programs or arrangements as in effect immediately prior to the Date of Termination, and (3) all of the Executive's then outstanding equity and incentive compensation awards shall be treated in accordance with the terms of the plans and agreements evidencing such awards. Subject to Section 3(l) hereof, the Company shall also provide the Executive and/or his eligible dependents with access to retiree medical coverage.~~

~~(b) OBLIGATIONS ON A TERMINATION DUE TO DEATH OR DISABILITY. If the Executive's employment hereunder terminates by reason of death or Disability, then the Company, in addition to making the payments and benefits in Section 5(a), shall pay to the Executive, or his estate, beneficiary or legal representative, as applicable, in a lump sum in cash as soon as practicable following the Date of Termination, a pro-rata portion of the Executive's Target Annual Bonus Percentage of Annual Base Salary for the Company's fiscal year in which the Date of Termination occurs (the "**Pro-Rata Bonus**"). The Pro-Rata Bonus shall be calculated by multiplying the Target Annual Bonus Percentage of Annual Base Salary by a fraction, the numerator of which is the number of days in the Company's fiscal year that have elapsed to the Date of Termination and the denominator of which is the number of days in such fiscal year.~~

~~(c) OTHER THAN FOR CAUSE, DISABILITY, OR DEATH, OR FOR GOOD REASON.~~

~~(i) If, during the Term, the Company terminates the Executive's employment for any reason other than for Cause, death or Disability, or the Executive terminates his employment for Good Reason, then, in addition to making the payments and providing the benefits pursuant to Section 5(a), subject to Section 5(c)(ii) and Section 12(h), (1) beginning as soon as practicable following the Date of Termination, the Company shall pay to the Executive a monthly payment for each of the first twenty-four (24) months following the Date of Termination equal to one-twelfth~~ ~~($1/12^{th}$)~~ ~~the sum of (i) the Executive's Annual Base Salary immediately prior to the Date of Termination plus (ii) the Executive's Target Annual Bonus Percentage of Annual Base Salary for the fiscal year in which the Date of Termination occurs; (2) the Company shall provide or arrange to provide the Executive and his eligible dependents, at no greater cost to the Executive than the cost to the Executive immediately prior to the Date of Termination, life, disability, accident and health insurance benefits no less favorable than those provided to the Executive and his eligible dependents immediately prior to the Date of Termination for twenty-four (24) months following the Date of Termination (the "Continuation Period"), or, if sooner, until he becomes eligible for such benefits from a new employer (and the Executive shall promptly notify the Company of such eligibility from any new employer); and (3) the Company shall pay the Executive, as soon as practicable following the Date of Termination, the Pro-Rata Bonus.~~

~~(ii) In the event that, during the Continuation Period, the Executive shall, without the written consent of the Board, directly or indirectly, as employee, agent, consultant, stockholder, director, manager, co-partner or in any other individual or representative capacity, own, operate, manage, control, engage in, invest in or participate in any manner in, act as consultant or advisor to, render services for (alone or in association with any person, firm, corporation or entity), or otherwise assist any person or entity (other than the Company) that~~

~~engages in or owns, invests in, operates, manages or controls any venture or enterprise that directly or indirectly engages or proposes to engage in any Competitive Business (as defined below), then the Company's obligations to make any further payments or provide any further benefits under this Section 5(c) shall immediately terminate. "**Competitive Business**" shall mean any line of business that is substantially the same as any line of any operating business which on the Date of Termination the Company was engaged in or conducting and which during the Company's preceding fiscal constituted at least 5% of the gross sales of the Company and its subsidiaries. Notwithstanding the foregoing, the Executive may, become a partner or employee of, or otherwise acquire an interest in, a stock or business brokerage firm, consulting or advisory firm, investment banking firm or similar organization which, as part of its business, trades or invests in securities of Competitive Businesses or which represents or acts as agent or advisor for Competitive Businesses, but only on condition that the Executive shall not personally render any services in connection with such Competitive Business either directly to such Competitive Business or other persons or to the Executive's firm in connection therewith.~~

~~6. NON-EXCLUSIVITY OF RIGHTS. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated compa-nies for which the Executive may qualify nor shall anything in this Agreement limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Vested benefits and other amounts that the Executive is otherwise entitled to receive under any plan, policy, practice or program of, or any contract of agreement with, the Company or any of its affiliated companies on or after the Date of Termination shall be payable in accordance with the terms of each such plan, policy, practice, program, contract or agreement, as the case may be, except as explicitly modified by this Agreement.~~

~~7. FULL SETTLEMENT. Except as provided herein, the Company's obligation to make the payments provided for in, and otherwise to perform its obligations under, this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action to mitigate the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced, regardless of whether the Executive obtains other employment.~~

~~8. CONFIDENTIAL INFORMATION; SOLICITATION.~~

~~(a) The Executive shall hold in a fiduciary capacity for the benefit of the Company any and all information of the Company and its subsidiaries that is not generally known by others with whom they compete or do business, or with whom they plan to compete or do business and any and all information not readily available to the public, which, if disclosed by the Company or its subsidiaries could reasonably be of benefit to such person or business in competing with or doing business with the Company ("**Confidential Information**"). Confidential Information includes, without limitation, such information relating to the (i) development, research, testing, manufacturing, store operational processes, marketing and financial activities, including costs, profits and sales, of the Company and its subsidiaries, (ii) products and all formulas therefor, (iii) costs, sources of supply, financial performance and strategic plans of the Company and its subsidiaries, (iv) identity and special needs of the customers and suppliers of the Company and its subsidiaries and (v) people and organizations with whom the Company and its subsidiaries have business relationships and those relationships. "Confidential Information" also includes comparable information that the Company or any of its subsidiaries have received belonging to others or which was received by the Company or any of its subsidiaries pursuant to an agreement by the Company that it would not be disclosed. "Confidential Information" does not include information which (A) is or becomes available to the public generally (other than as a result of the Executive's unauthorized disclosure), (B) was within the Executive's possession prior to the date hereof or prior to its being furnished to the Executive by or on behalf of the Company, provided that the source of such information was not bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Company or any other party with respect to such information, (C) becomes available to the Executive on a~~

~~non-confidential basis from a source other than the Company or its subsidiaries, provided that such source is not bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Company or any other party with respect to such information, (D) was independently developed the Executive without reference to the Confidential Information or (E) is required by law to be disclosed. The Executive shall promptly return to the Company upon the Date of Termination or at any other time the Company may so request, all notes, records, documents, files and memoranda (including in electronic format and all copies of such materials) constituting Confidential Information he may then possess or have under his control; provided, however, that he may retain his personal correspondence, diaries and other items of a personal nature.~~

~~(b) For a period of two (2) years after the Date of Termination, the Executive shall not, without the written consent of the Board, directly or indirectly, (i) hire any person who was employed by the Company or any of its subsidiaries or affiliates (other than persons employed in a clerical or other non-professional position) within the six (6) month period preceding the date of such hiring; or (ii) solicit, entice, persuade or induce (in each case, other than pursuant to non-targeted, general advertisements) any person or entity doing business with the Company and its subsidiaries or affiliates, to terminate such relationship or to refrain from extending or renewing the same.~~

~~(c) The Executive agrees that, in addition to any other remedies available to the Company, the Company shall be entitled to injunctive relief in the event of any actual or threatened breach of this Section 8 without the necessity of posting any bond, it being acknowledged and agreed that any breach or threatened breach of this Section 8 hereof will cause irreparable injury to the Company and that money damages alone will not provide an adequate remedy to the Company.~~

~~9. DISPUTE RESOLUTION. Except for the Company's right to seek injunctive relief as set forth in Section 8(c), all disputes arising under, related to, or in connection with this Agreement shall be settled by expedited arbitration conducted before a panel of three (3) arbitrators sitting in Hartford, Connecticut, in accordance with the rules of the American Arbitration Association then in effect. The decision of the arbitrators in that proceeding shall be binding on the Company and the Executive. Judgment may be entered on the award of the arbitrators in any court having jurisdic-tion. Each party shall bear its own costs and expenses (including legal fees) in connection with any arbitration proceeding instituted hereunder; provided, however, that if the Executive prevails in the arbitration, his costs and expenses shall be promptly reimbursed by the Company.~~

~~10. ASSIGNMENT; SUCCESSORS. This Agreement is personal to the Executive and, without the prior written consent of the Company, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors. In addition to any obligations imposed by law upon any successor to the Company, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession and benefits had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled to hereunder if the Executive were to terminate the Executive's employment for Good Reason.~~

~~11. NO VIOLATIONS. As a material inducement to the Company's willingness to enter into this Agreement, the Executive represents to the Company that neither the execution of this Agreement by the Executive, the employment of the Executive by the Company nor the performance by the Executive of his duties hereunder will constitute a violation by the Executive of any employment, non-competition or other agreement to which the Executive is a party. The Company represents and warrants that it is fully authorized and empowered to enter into this Agreement (and those contemplated hereby) and that the performance of its obligations under this Agreement will not violate any agreement between it and any other person, firm or organization.~~

~~12. MISCELLANEOUS.~~

~~(a) GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Connecticut, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.~~

~~(b) NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:~~

~~If to the Executive:~~

~~At his address on file with the Company~~

~~With a copy to:~~

~~Simpson Thacher Bartlett LLP~~
~~425 Lexington Avenue~~
~~New York, New York 10017~~
~~Attn: Kenneth C. Edgar Jr., Esq.~~

~~If to the Company:~~

~~The Stanley Works~~
~~1000 Stanley Drive~~
~~New Britain, CT 06053~~

~~With a copy to:~~

~~Skadden, Arps, Slate, Meagher & Flom LLP~~
~~Four Times Square~~
~~New York, New York 10036~~
~~Attn: Stuart N. Alperin, Esq.~~

~~or to such other address as either party furnishes to the other in writing in accordance with this paragraph (b) of Section 12. Notices and communications shall be effective when actually received by the addressee.~~

~~(c) SEVERABILITY. The invalidity or unenforceability of any provision of this Agree-ment shall not affect the validity or enforceability of any other provision of this Agreement. If any provision of this Agreement shall be held invalid or unenforce-able in part, the remaining portion of such provision, together with all other provi-sions of this Agreement, shall remain valid and enforceable and continue in full force and effect to the fullest extent consistent with law.~~

~~(d) LEGAL FEES. The Company shall pay directly or reimburse the Executive for legal fees and expenses incurred in connection with the negotiation and preparation of this Agreement and the agreements contemplated herein; provided, however, that such payment or reimbursement obligation shall not exceed $25,000 in the aggregate.~~

~~(e) WITHHOLDING. Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all federal, state, local and foreign taxes that are required to be withheld by applicable laws or regulations.~~

~~(f) WAIVER. The Executive's or the Company's failure to insist upon strict compliance with any provisions of, or to assert any right under, this Agreement shall not be deemed to be a waiver of such provision or right or of any other provision of or right under this Agreement.~~

~~(g) ENTIRE AGREEMENT. The Executive and the Company acknowledge that this Agreement (together with the Exhibits hereto) constitutes the entire understanding of the parties with respect to the subject matter hereof and supersede any other prior agreement or other under-standing, whether oral or written, express or implied, between them concerning, related to or otherwise in~~

~~connection with, the subject matter hereof and that, following the date hereof, no such agreement or understanding shall be of any further force or effect.~~

~~(h) RELEASE. In connection with any termination of the Executive's employ-ment, the Executive and the Company agree to execute a mutual release from liability substantially in the form attached hereto as Exhibit E, and it is understood that no payments shall be made or any benefits provided pursuant to Section 5(c) hereof prior to the expiration of the required revocation period with respect to such release.~~

~~(i) PUBLIC ANNOUNCEMENT. The Company and the Executive agree to fully cooperate with respect to the timing and content of any public announcement regarding the hiring of the Executive or the execution of this Agreement.~~

~~(j) NEW HIRE PROCEDURES. The Executive shall co-operate with the Company in complying with the reasonable standard new hire policies and procedures of the Company, which policies and procedures have been communicated to the Executive.~~

~~(k) SURVIVAL OF TERMS. To the extent necessary to effectuate the terms of this Agreement, terms of this Agreement which must survive the termination of the Executive's employment or the termination of this Agreement shall so survive.~~

~~(l) COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.~~

~~(m) EACH PARTY THE DRAFTER. This Agreement and the provisions contained in it shall not be construed or interpreted for or against any party to this Agreement because that party drafted or caused that party's legal representative to draft any of its provisions.~~

~~IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization of its Board, the Company has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written, to become effective as of the Effective Date.~~

~~THE STANLEY WORKS~~

~~By: ______________________________~~
~~Name: John D. Opie~~
~~Title: Director~~

~~EXECUTIVE~~

~~______________________________~~
~~John F. Lundgren~~

~~EXHIBIT A~~

STANLEY

~~The Stanley Works 2001 Long Term Incentive Plan~~

~~Stock Option Grant Certificate~~

~~**John F. Lundgren** *has been awarded an Option to purchase 250,000 shares*~~

~~*Grant Date: ____________, 2004*~~ ~~*Expiration Date: ____________, 2014*~~

~~*25% of Option exercisable ____________, 2005*~~
~~*25% of Option exercisable ____________, 2006*~~
~~*25% of Option exercisable ____________, 2007*~~
~~*25% of Option exercisable ____________, 2008*~~

~~*Purchase Price Per Share: $[ ]*~~

~~The Stanley Works~~

~~*As a member of Stanley's team, your skills and contributions*~~
~~*are vital to our Company's and its Shareholders continued success.*~~
~~*This award of stock options provides you with the opportunity to earn significant financial rewards for*~~
~~*your efforts and contributions to making Stanley the most successful company it can be.*~~
~~*On behalf of the Board of Directors, Congratulations.*~~

~~John D. Opie~~

~~**EXHIBIT A**~~

~~The Stanley Works hereby grants to the Grantee named on the front of this Certificate the option (the "Option") to purchase, on or before the Expiration Date at the Purchase Price per Share, the Option Shares, which shall be shares of the Common Stock of The Stanley Works, par value $2.50 per share (the "Common Stock") all as set forth on the front of this certificate. The Option is granted subject to the following terms and conditions and the terms and conditions of The Stanley Works 2001 Long Term Incentive Plan, as amended from time to time (the "Plan").~~

~~1. Exercisability. The Option may, from time to time from the Exercisable Date to the Expiration Date, be exercised as to the Option Shares or a portion thereof, as set forth on the front of this certificate. Stock may be purchased hereunder only to the extent that this Option has become exercisable. See paragraph 6 regarding termination of employment.~~

~~2. Process of Exercise. The Option may be exercised, in whole or in part, by written notification to Stanley's Treasurer at Stanley's executive offices in New Britain, Connecticut, or by any other procedure established by Stanley from time to time. Such notification shall (i) specify the number of shares with respect to which the Option is being exercised, and (ii) be accompanied by payment for such shares. Such notification shall be effective upon its receipt by the Treasurer or any other party designated by the Treasurer on or before the Expiration Date. The Option may not be exercised with respect to a fractional share or with respect to the lesser of 100 shares or the balance of the shares then covered by the Option. In the event the Expiration Date falls on a day which is not a regular business day at Stanley's executive offices in New Britain, Connecticut, then such written notification must be received at such office on or before the last regular business day prior to the Expiration Date. Payment is to be made by check payable to the order of The Stanley Works or by one of the alternative methods of payment described in the Plan and acceptable to Stanley's Compensation and Organization Committee (the "Committee"). No shares shall be issued on exercise of the Option until full payment for such shares has been made and all checks delivered in payment therefor have been collected. The Grantee shall not have any rights of a shareholder upon exercise of the Option, including but not limited to, the right to vote or to receive dividends, until stock certificates have been issued to the Grantee.~~

~~3. Tax Withholding; etc. Stanley shall not be required to issue any certificate or certificates for shares purchased upon the exercise of any part of the Option prior to (i) the admission of such shares to listing on any stock exchange on which the stock may then be listed, (ii) the completion of any registration or other qualification of such shares under any state or federal law or rulings or regulations of any governmental regulatory body, (iii) the obtaining of any consent or approval or other clearance from any governmental agency which Stanley shall, in its sole discretion, determine to be necessary or advisable, and (iv) the payment to Stanley, upon its demand, of any amount requested by Stanley for withholding federal, state or local income or earnings taxes or any other applicable tax or assessment (plus interest or penalties thereon, if any, caused by a delay in making such payment) incurred by reason of the exercise of the Option or the transfer of such shares. The Option shall be exercised and shares issued only upon compliance with the Securities Act of 1933, as amended (the "Act"), and any other applicable securities laws, and the Grantee shall comply with any requirements imposed by the Committee under such laws. If the Grantee qualifies as an "affiliate" (as that term is defined in Rule 144 ("Rule 144") promulgated under the Act), upon demand by Stanley, the Grantee (or any person acting on his or her behalf) shall deliver to the Treasurer at the time of any exercise of the Option a written representation that upon exercising the Option he or she will acquire shares pursuant to the Plan for his or her own account, that he or she is not taking the shares with a view to distribution and that he or she will dispose of the shares only in compliance with Rule 144.~~

~~4. Transferability. Except as otherwise provided in the Plan, the Option is not transferable by the Grantee otherwise than by will or by the laws of descent and distribution, or pursuant to a qualified domestic relations order, as defined in the Internal Revenue Code of 1986, as amended (the "Code"). More particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred (except as provided above), pledged or hypothecated in any way, shall not be assignable by operation of law and shall not be subject to execution, attachment or similar process.~~

~~**EXHIBIT A**~~

~~5. No Right to Employment. The Option does not confer upon the Grantee any right with respect to continuation of employment with Stanley or any of its subsidiaries, and will not interfere in any way with the right of Stanley or any of its subsidiaries to terminate the Grantee's employment.~~

~~6. Change in Control; Termination of Employment. Notwithstanding any other provisions:~~

~~Upon the termination of Grantee's employment with Stanley for any reason, the portion of the Option not then exercisable (after taking into account the provisions hereof) shall be immediately forfeited.~~

~~Upon the occurrence of a Change in Control (as defined in the Change in Control Severance Agreement) during Grantee's employment with Stanley or upon termination of Grantee's employment with Stanley by reason of death, Retirement (as defined below) or Disability (as defined in Grantee's employment agreement with Stanley dated ____________, 2004, as amended from time to time (the "Employment Agreement")), the Option shall thereupon become exercisable as to all shares of Common Stock subject to the Option. Upon the termination of Grantee's employment by Stanley other than for Cause (as defined in the Employment Agreement), or upon Grantee's termination of employment from Stanley for Good Reason (as defined in the Employment Agreement), the Option also shall thereupon become exercisable as to all shares of Common Stock subject to the Option. Upon a termination by the Company other than for Cause, death, Retirement, or Disability, or upon Grantee's termination of employment from Stanley for Good Reason, the Grantee may exercise the Option until the earlier of the expiration of its original term or two (2) years after such termination of employment. Upon a termination of employment due to death, Retirement or Disability, the Grantee may exercise the option until the expiration of its original term.~~

~~Upon the termination of the Grantee's employment with Stanley for Cause, the Option shall expire immediately upon such termination. Upon the Grantee's voluntary termination of employment with Stanley other than for Good Reason, the Grantee may exercise the Option, to the extent then exercisable, until the earlier of the expiration of its original term or two (2) months after such termination.~~

~~Leaves of absence for such periods and purposes conforming to the personnel policy of Stanley as may be approved by the Committee shall not be deemed terminations or interruptions of employment.~~

~~If the Grantee should die while employed by Stanley or any of its subsidiaries or after Disability or Retirement, the Option may be exercised by the person designated in the Grantee's last will and testament or, in the absence of such designation, by the Grantee's estate, to the full extent that the Option could have been exercised by the Grantee immediately prior to the Grantee's death until the expiration of its original term. For purposes of this paragraph 6, "Retirement" shall have the meaning provided under the qualified pension plan applicable to the Grantee.~~

~~In the event the Option is exercised by the executors, administrators, legatees or distributees of the estate of the Optionee, Stanley shall be under no obligation to issue shares unless Stanley is satisfied that the person or persons exercising the Option are the duly appointed legal representatives of the Optionee's estate or the proper legatees or distributees thereof.~~

~~**7. Adjustments.** In the event of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split or other changes in corporate structure or capitalization affecting the Common Stock, the number of shares remaining to be exercised under the Option and the Purchase Price shall be appropriately adjusted by the Committee in accordance with the terms and provisions of the Plan. If, as a result of any adjustment under this paragraph, the Grantee becomes entitled to a fractional share, he or she shall have the right to purchase only the adjusted number of full shares and no payment or other adjustment will be made with respect to the fractional share so disregarded.~~

~~**8. Miscellaneous.** All decisions or interpretations of the Committee with respect to any question arising under the Plan or under the Option shall be binding, conclusive and final. The waiver by Stanley of any provision of the Option shall not operate as or be construed to be a subsequent waiver of the same provision~~

~~or a waiver of any other provision of the Option. The Option shall be irrevocable during the Option period and its validity and construction shall be governed by the laws of the State of Connecticut. The terms and conditions set forth in the Option are subject in all respects to the terms and conditions of the Plan, which shall be controlling. Grantee agrees to execute such other agreements, documents, or assignments as may be necessary or desirable to effect the purposes of this the Option.~~

~~**9. Binding Effect.** The grant of this Option shall be binding and effective only if this Certificate is executed by or on behalf of Stanley.~~

~~**10. Capitalized Terms.** All capitalized terms used in this Certificate which are not defined herein shall have the meaning given them in the Plan unless the context clearly requires otherwise.~~

~~**EXHIBIT B**~~

STANLEY

~~*The Stanley Works 2001 Long-Term Incentive Plan*~~

~~RSU Grant Certificate~~

~~**John F. Lundgren** *has been awarded 75,000 restricted stock units (RSU)*~~

~~**Grant Date: ___________, 2004**~~

~~**Distribution Date: 50% on ________, 2006**~~
~~**50% on ________, 2007**~~

~~The Stanley Works~~

~~*As a member of Stanley's team, your skills and contributions*~~

~~*are vital to our Company's and its Shareholders continued success.*~~

~~*This award of stock options provides you with the opportunity to earn significant financial*~~

~~*rewards for your efforts and contributions to making Stanley the most successful*~~

~~*company it can be.*~~

~~*On behalf of the Board of Directors, Congratulations.*~~

~~John D. Opie~~

~~**EXHIBIT B**~~

~~Inter-Office Correspondence~~

~~To: John F. Lundgren~~ ~~____________, 2004~~

~~As of __________, 2004, the company granted to you 75,000 restricted stock units under Stanley's 2001 Long-Term Incentive Plan (the "Plan"), as evidenced by the attached RSU Grant Certificate. These units shall include dividend equivalent rights that will entitle you to receive payments at the same time and in the same amount and kind as dividends are paid on shares. Except as indicated below, these units will be forfeited if your employment is terminated for any reason prior to the applicable distribution date set forth below.~~

~~Here are the terms of the grant.~~

~~Grantee~~	~~Total Grant~~	~~Shares/Distribution Date~~
		~~37,500 __/__/06~~
~~John F. Lundgren~~	~~75,000~~	~~37,500 __/__/07~~

~~If, prior to the applicable distribution date set forth above, (1) there occurs a Change in Control (as defined in the Plan) while you remain employed by Stanley, (2) your employment terminates by reason of death or Disability, (3) your employment is terminated by Stanley (other than for Cause) or (4) your employment is terminated by you for Good Reason, all then outstanding units shall become vested and nonforfeitable and distribution in respect of such units shall be made to you (subject to any deferral election made by you). For purposes hereof, the terms "Disability," "Cause" and "Good Reason" shall have the respective meanings ascribed to such terms in your employment agreement with Stanley dated ___________, 2004, as amended from time to time.~~

~~Bruce H. Beatt~~

~~EXHIBIT C~~

~~CHANGE IN CONTROL SEVERANCE AGREEMENT~~

~~THIS AGREEMENT (the "Agreement"), dated ___________, 2004, is made by and between The Stanley Works, a Connecticut corporation (the "Company"), and John F. Lundgren (the "Executive").~~

~~WHEREAS, the Company considers it essential to the best interests of its shareowners to foster the continued employment of key management personnel; and~~

~~WHEREAS, the Board recognizes that, as is the case with many publicly held corporations, the possibility of a Change in Control exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareowners; and~~

~~WHEREAS, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control;~~

~~NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:~~

~~1. Defined Terms. The definitions of capitalized terms used in this Agreement are provided in the last Section hereof.~~

~~2. Term of Agreement. The Term of this Agreement shall commence on ___________, 2004 and shall continue in effect through ___________, 2006; provided, however, that commencing on ___________, 2005 and each ___________ thereafter, the Term shall automatically be extended for one additional year unless, not later than ninety (90) days prior to ______________, the Company or the Executive shall have given notice not to extend the Term; and further provided, however, that if a Change in Control shall have occurred during the Term, the Term shall expire no earlier than twenty-four (24) months beyond the month in which such Change in Control occurred.~~

~~3. Company's Covenants Summarized. In order to induce the Executive to remain in the employ of the Company and in consideration of the Executive's covenants set forth in Section 4 hereof, the Company agrees, under the conditions described herein, to pay the Executive the Severance Payments and the other payments and benefits described herein. Except as provided in Section 10.1 hereof, no Severance Payments shall be payable under this Agreement unless there shall have been (or, under the terms of the second sentence of Section 6.1 hereof, there shall be deemed to have been) a termination of the Executive's employment with the Company following a Change in Control and during the Term. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between the Executive and the Company, the Executive shall not have any right to be retained in the employ of the Company.~~

~~4. The Executive's Covenants. The Executive agrees that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control during the Term, the Executive will remain in the employ of the Company until the earliest of (i) a date which is six (6) months from the date of such Potential Change in Control, (ii) the date of a Change in Control, (iii) the date of termination by the Executive of the Executive's employment for Good Reason or by reason of death, Disability or Retirement, or (iv) the termination by the Company of the Executive's employment for any reason.~~

~~5. Compensation Other Than Severance Payments.~~

~~5.1 Following a Change in Control and during the Term, during any period that the Executive fails to perform the Executive's full-time duties with the Company as a result of incapacity due to physical or mental illness, the Company shall pay the Executive's Annual Base Salary at the rate in effect at the commencement of any such period, together with all compensation and benefits payable to the Executive under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period (other than any disability plan), until the Executive's employment is terminated by the Company for Disability.~~

~~5.2 If the Executive's employment shall be terminated for any reason following a Change in Control and during the Term, the Company shall pay, in addition to the payments and benefits due under Section 5(a) of the Employment Agreement and subject to the nonduplication of benefits provisions set forth in Section 12 of this Agreement, the Executive's Annual Base Salary to the Executive through the Date of Termination at the rate in effect immediately prior to the Date of Termination or, if higher, the rate in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, together with all compensation and benefits payable to the Executive through the Date of Termination under the terms of the Company's compensation and benefit plans, programs or arrangements as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason.~~

~~5.3 If the Executive's employment shall be terminated for any reason following a Change in Control and during the Term, the Company shall, in addition to the payments and benefits due under Section 5(a) of the Employment Agreement and subject to the nonduplication of benefits provisions set forth in Section 12 of this Agreement, pay to the Executive the Executive's post-termination compensation and benefits as such payments become due. Such post-termination compensation and benefits shall be determined under, and paid in accordance with, the Company's retirement, insurance and other compensation or benefit plans, programs and arrangements as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the occurrence of the first event or circumstance constituting Good Reason.~~

~~6. Severance Payments.~~

~~6.1 If the Executive's employment is terminated following a Change in Control and during the Term, other than (A) by the Company for Cause, (B) by reason of death or Disability, or (C) by the Executive without Good Reason, then the Company shall pay the Executive the amounts, and provide the Executive the benefits, described in this Section 6.1 ("Severance Payments") and Section 6.2, in addition to any payments and benefits to which the Executive is entitled under Section 5 hereof. For purposes of this Agreement, the Executive's employment shall be deemed to have been terminated following a Change in Control by the Company without Cause or by the Executive with Good Reason if (i) the Executive's employment is terminated by the Company without Cause prior to a Change in Control (whether or not a Change in Control occurs) and such termination was at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control, (ii) the Executive terminates his employment for Good Reason prior to a Change in Control (whether or not a Change in Control occurs) and the circumstance or event which constitutes Good Reason occurs at the request or direction of such Person, or (iii) the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason and such termination or the circumstance or event which constitutes Good Reason is otherwise in connection with or in anticipation of a Change in Control (whether or not a Change in Control occurs).~~

> ~~(A) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination and in lieu of any severance benefit otherwise payable to the Executive pursuant to the Employment Agreement or otherwise, the Company shall pay to the Executive a lump sum severance payment, in cash, equal to three (3) times the sum of the (i) Executive's Annual Base Salary or, if higher, the Annual Base Salary in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, and (ii) the average annual bonus earned by the Executive pursuant to Section 3(b) of the Employment Agreement and any other annual bonus or incentive plan maintained by the Company in respect of the three (3) fiscal years ending immediately prior to the fiscal year in which occurs the Date of Termination or, if higher, immediately prior to the fiscal year in which the first event or circumstance constituting Good Reason occurs. If the Executive has not been eligible to receive three (3) annual bonuses due to his lack of tenure with the Company at the time of termination of employment, such~~

~~average shall be calculated with respect to the lesser number of fiscal years for which the Executive was eligible to receive an annual bonus from the Company and for which such bonuses were determined and paid by the Company (or deferred by the Executive); provided, however, that (1) if the Executive's annual cash bonus in respect of the Company's 2004 fiscal year has not been paid (or so deferred) prior to the Executive's termination of employment, such average shall be deemed to be $750,000 and (2) any annual bonus actually earned in respect of 2004 shall, for purposes of computing the applicable average, be deemed to be the actual amount of the annual bonus for 2004, multiplied by a fraction, the numerator of which is 366, and the denominator of which is the number of days the Executive was employed by the Company in 2004. Any amount paid by the Company pursuant to Section 3(c) of the Employment Agreement shall be disregarded for purposes of this calculation.~~

~~(B) For the thirty-six (36) month period immediately following the Date of Termination, the Company shall arrange to provide the Executive and his dependents life, disability, accident and health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the Date of Termination or, if more favorable to the Executive, those provided to the Executive and his dependents immediately prior to the first occurrence of an event or circumstance constituting Good Reason, at no greater after tax cost to the Executive than the after tax cost to the Executive immediately prior to such date or occurrence; provided, however, that, unless the Executive consents to a different method, such health insurance benefits shall be provided through a third-party insurer. Benefits otherwise receivable by the Executive pursuant to this Section 6.1(B) shall be reduced to the extent benefits of the same type are received by or made available to the Executive during the thirty-six (36) month period following the Executive's termination of employment (and any such benefits received by or made available to the Executive shall be reported to the Company by the Executive); provided, however, that the Company shall promptly reimburse the Executive for the excess, if any, of the after tax cost of such benefits to the Executive over such cost immediately prior to the Date of Termination or, if more favorable to the Executive, the first occurrence of an event or circum-stance constituting Good Reason.~~

~~(C) In addition to the retirement benefits to which the Executive is entitled under each DB Pension Plan or any successor plan thereto, the Company shall pay the Executive a lump sum amount, in cash, equal to the excess of (i) the actuarial equivalent of the aggregate retirement pension (taking into account any early retirement subsidies associated therewith and determined as a straight life annuity commencing at the date (but in no event earlier than the third anniversary of the Date of Termination) as of which the actuarial equivalent of such annuity is greatest) which the Executive would have accrued under the terms of all DB Pension Plans (without regard to any amendment to any DB Pension Plan made subsequent to a Change in Control and on or prior to the Date of Termination, which amendment adversely affects in any manner the computation of retirement benefits thereunder), determined as if the Executive were fully vested thereunder and had accumulated (after the Date of Termination) thirty-six (36) additional months of age and service credit thereunder and had been credited under each DB Pension Plan during such period with compensation equal to the Executive's compensation (as defined in such DB Pension Plan) during the twelve (12) months immediately preceding Date of Termination or, if higher, during the twelve (12) months immediately prior to the first occurrence of an event or circumstance constituting Good Reason, over (ii) the actuarial equivalent of the aggregate retirement pension (taking into account any early retirement subsidies associated therewith and determined as a straight life annuity commencing at the date (but in no event earlier than the Date of Termination) as of which the actuarial equivalent of such annuity is greatest) which the Executive had accrued pursuant to the provisions of the DB Pension Plans as of the Date of Termination. For purposes of this Section 6.1(C), "actuarial equivalent" shall be determined using the same assumptions utilized under The Stanley Works Retirement Plan immediately prior to the Date of Termination or, if more favorable to the Executive, immediately prior to the first occurrence of an event or circumstance constituting Good Reason. Notwithstanding the foregoing, the calculation of the lump sum amount payable with respect to~~

~~the DB Pension Plan that arises pursuant to Section 3(j) ("Pension Make-Whole") of the Employment Agreement shall be determined based on the projected increase in the Executive's Historical Average Compensation (as defined in Exhibit D to the Employment Agreement).~~

~~(D) In addition to the benefits to which the Executive is entitled under the DC Pension Plan, the Company shall pay the Executive a lump sum amount, in cash, equal to the sum of (i) the amount that would have been contributed thereto by the Company on the Executive's behalf during the thirty-six (36) months immediately following the Date of Termination, determined (x) as if the Executive made the maximum permissible contributions thereto during such period, (y) as if the Executive earned compensation during such period at a rate equal to the Executive's compensation (as defined in the DC Pension Plan) during the twelve (12) months immediately preceding the Date of Termination or, if higher, during the twelve (12) months immediately prior to the first occurrence of an event or circumstance constituting Good Reason, and (z) without regard to any amendment to the DC Pension Plan made subsequent to a Change in Control and on or prior to the Date of Termination, which amendment adversely affects in any manner the computation of benefits thereunder, and (ii) the excess, if any, of (x) the Executive's account balance under the DC Pension Plan as of the Date of Termination over (y) the portion of such account balance that is nonforfeitable under the terms of the DC Pension Plan.~~

~~(E) If the Executive would have become entitled to benefits under the Company's post-retirement health care or life insurance plans, as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, had the Executive's employment terminated at any time during the period of thirty-six (36) months after the Date of Termination, the Company shall provide such post-retirement health care and/or life insurance benefits to the Executive and the Executive's dependents commencing on the later of (i) the date on which such coverage would have first become available and (ii) the date on which benefits described in subsection (B) of this Section 6.1 terminate.~~

~~(F) The Company shall provide the Executive with third-party outplacement services suitable to the Executive's position for a period of thirty-six (36) months or, if earlier, until the first acceptance by the Executive of an offer of employment, provided, however, that in no case shall the Company be required to pay in excess of $50,000 over such period in providing outplacement services.~~

~~(G) For the thirty-six (36) month period immediately following the Date of Termination or until the Executive becomes eligible for substantially similar benefits from a new employer, whichever occurs earlier, the Company shall continue to provide the Executive with all perquisites provided by the Company (i) to the Executive pursuant to the Employment Agreement and (ii) immediately prior to the Date of Termination or, if more favorable to the Executive, immediately prior to the first occurrence of an event or circumstance constituting Good Reason (including, without limitation, automobile, financial planning, annual physical and executive whole life insurance).~~

~~6.2 (A) Whether or not the Executive becomes entitled to the Severance Payments, if any of the payments or benefits received or to be received by the Executive (including any payment or benefits received in connection with a Change in Control or the Executive's termination of employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits, excluding the Gross-Up Payment, being hereinafter referred to as the "Total Payments") will be subject to the Excise Tax, the Company shall pay to the Executive an additional amount (the "Gross-Up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Total Payments and any federal, state and local income and employment taxes and Excise Tax upon the Gross-Up Payment, and after taking into account the phase out of itemized deductions and personal exemptions attributable to the Gross-Up Payment, shall be equal to the Total Payments.~~

~~(B) For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) all of the Total Payments shall be treated as~~

~~"parachute payments" (within the meaning of Section 280G(b)(2) of the Code) unless, in the opinion of tax counsel ("Tax Counsel") reasonably acceptable to the Executive and selected by the accounting firm which was, immediately prior to the Change in Control, the Company's inde-pendent auditor (the "Auditor"), such payments~~

~~or benefits (in whole or in part) do not constitute parachute payments, including by reason of Section 280G(b)(4)(A) of the Code, (ii) all "excess parachute payments" within the meaning of Section 280G(b)(l) of the Code shall be treated as subject to the Excise Tax unless, in the opinion of Tax Counsel, such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code) in excess of the Base Amount allocable to such reasonable compensation, or are otherwise not subject to the Excise Tax, and (iii) the value of any noncash benefits or any deferred payment or benefit shall be determined by the Auditor in accordance with the principles of Sections 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay federal income tax at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the Date of Termination (or if there is no Date of Termination, then the date on which the Gross-Up Payment is calculated for purposes of this Section 6.2), net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.~~

~~(C) In the event that the Excise Tax is finally determined to be less than the amount taken into account hereunder in calculating the Gross-Up Payment, the Executive shall repay to the Company, within five (5) business days following the time that the amount of such reduction in the Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax and federal, state and local income and employment taxes imposed on the Gross-Up Payment being repaid by the Executive), to the extent that such repayment results in a reduction in the Excise Tax and a dollar-for-dollar reduction in the Executive's taxable income and wages for purposes of federal, state and local income and employment taxes, plus interest on the amount of such repayment at 120% of the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder in calculating the Gross-Up Payment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional Gross-Up Payment in respect of such excess (plus any interest, penalties or additions payable by the Executive with respect to such excess) within five (5) business days following the time that the amount of such excess is finally determined. The Executive and the Company shall each reasonably cooperate with the other in connection with any administrative or judicial proceedings concerning the existence or amount of liability for Excise Tax with respect to the Total Payments.~~

~~6.3 The payments provided in subsections (A), (C) and (D) of Section 6.1 hereof and in Section 6.2 hereof shall be made not later than the fifth day following the Date of Termination (or if there is no Date of Termination, then the date on which the Gross-Up Payment is calculated for purposes of Section 6.2 hereof); provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Company or, in the case of payments under Section 6.2 hereof, in accordance with Section 6.2 hereof, of the minimum amount of such payments to which the Executive is clearly entitled and shall pay the remainder of such payments (together with interest on the unpaid remainder (or on all such payments to the extent the Company fails to make such payments when due) at 120% of the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall be payable by the Executive to the Company on the fifth (5th) business day after demand by the Company (together with interest at 120% of the rate provided in Section 1274(b)(2)(B) of the Code). At the time that payments are made under this Agreement, the Company shall provide the Executive with a written statement setting forth~~

~~the manner in which such payments were calculated and the basis for such calculations including, without limitation, any opinions or other advice the Company has received from Tax Counsel, the Auditor or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).~~

~~6.4 The Company also shall pay to the Executive all legal fees and expenses incurred by the Executive in disputing in good faith any issue hereunder relating to the termination of the Executive's employment, in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit provided hereunder. Such payments shall be made within five (5) business days after delivery of the Executive's written requests for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.~~

~~7. Termination Procedures and Compensation During Dispute.~~

~~7.1 Notice of Termination. After a Change in Control and during the Term, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 11 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause (and the subsequent special Board meeting to determine whether Cause exists) shall be in accordance with the provisions set forth in Section 4(b)(ii) of the Employment Agreement.~~

~~7.2 Date of Termination. "Date of Termination," with respect to any purported termination of the Executive's employment after a Change in Control and during the Term, shall mean (i) if the Executive's employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that the Executive shall not have returned to the full-time performance of the Executive's duties during such thirty (30) day period), and (ii) if the Executive's employment is terminated for any other reason, the date specified in the Notice of Termination (which, in the case of a termination by the Company, shall not be less than thirty (30) days (except in the case of a termination for Cause, in which case the Date of Termination will be determined in accordance with Sections 4(b)(ii) and 4(d) of the Employment Agreement) and, in the case of a termination by the Executive, shall not be less than fifteen (15) days nor more than sixty (60) days, respectively, from the date such Notice of Termination is given).~~

~~7.3 Dispute Concerning Termination. If within fifteen (15) days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this Section 7.3), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be extended until the earlier of (i) the date on which the Term ends or (ii) the date on which the dispute is finally resolved, either by mutual written agreement of the parties or by a final judgment, order or decree of three (3) arbitrators, in accordance with the dispute resolution provisions set forth in Section 9 of the Employment Agreement, or by a court of competent jurisdiction (which, in each case, is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Date of Termination shall be extended by a notice of dispute given by the Executive only if such notice is given in good faith and the Executive pursues the resolution of such dispute with reasonable diligence.~~

~~7.4 Compensation During Dispute. If a purported termination occurs following a Change in Control and during the Term and the Date of Termination is extended in accordance with Section 7.3 hereof, the Company shall continue to pay the Executive the full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, Annual Base Salary and eligibility for the Target Annual Bonus Percentage) and continue the Executive as a participant in all compensation, benefit and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given, until the Date of Termination, as determined in accordance with~~

~~Section 7.3 hereof. Amounts paid under this Section 7.4 are in addition to all other amounts due under this Agreement (other than those due under Section 5.2 hereof) and shall not be offset against or reduced by any other amounts due under this Agreement.~~

~~8. No Mitigation. The Company agrees that, if the Executive's employment with the Company terminates during the Term, the Executive is not required to seek other employment or to attempt in any way to~~

reduce any amounts payable to the Executive by the Company pursuant to Section 6 hereof or Section 7.4 hereof. Further, except as specifically provided in Sections 6.1(B) and 6.1(G) hereof, no payment or benefit provided for in this Agreement shall be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

9. Restrictive Covenants.

9.1 The Executive agrees that restrictions on his activities during and after his employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its Subsidiaries, and that the agreed restrictions set forth below will not deprive the Executive of the ability to earn a livelihood:

(A) In the event that, during the twenty-four (24) months following termination of employment during the Term by the Executive for Good Reason or by the Company other than for Cause, death, or Disability (the "Non-Competition Period"), the Executive shall, without the written consent of the Board, directly or indirectly, as employee, agent, consultant, stockholder, director, manager, co-partner or in any other individual or representative capacity, own, operate, manage, control, engage in, invest in or participate in any manner in, act as consultant or advisor to, render services for (alone or in association with any person, firm, corporation or entity), or otherwise assist any person or entity (other than the Company) that engages in or owns, invests in, operates, manages or controls any venture or enterprise that directly or indirectly engages or proposes to engage in any Competitive Business, then the Company's obligations to make any further payments or provide any further benefits under Section 6.1 shall immediately terminate.

(B) The Executive agrees that (i) during the Non-Competition Period, the Executive will remain bound by Section 8(b) of the Employment Agreement and (ii) during the Term and thereafter, he will remain bound by Section 8(a) of the Employment Agreement.

(C) Without limiting the foregoing, it is understood that the Company shall not be obligated to make any of the payments or to provide for any of the benefits specified in Sections 6.1 and 6.2 hereof, and shall be entitled to recoup the pro rata portion of any such payments and of the value of any such benefits previously provided to the Executive in the event of a material breach by the Executive of the provisions of this Section 9 (such pro ration to be determined as a fraction, the numerator of which is the number of days from such breach to the second anniversary of the date on which the Executive terminates employment and the denominator of which is 730), which breach continues without having been cured within 15 days after written notice to the Executive specifying the breach in reasonable detail.

10. Successors; Binding Agreement.

10.1 In addition to any obligations imposed by law upon any successor to the Company, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled to hereunder if the Executive were to terminate the Executive's employment for Good Reason after a Change in Control, except that, for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

10.2 This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate.

11. Notices. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed, if to the Executive, to the address on file with the Company and, if to the Company, to the address set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To the Company: The Stanley Works
1000 Stanley Drive
New Britain, Connecticut 06053

Attention: General Counsel

12. Miscellaneous. No provision of this Agreement may be modi-fied, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or of any lack of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. This Agreement shall supersede any agreement setting forth the terms and conditions of the Executive's employment with the Company (including, without limitation, the Employment Agreement) only in the event that the Executive's employment with the Company is terminated during the Term on or following a Change in Control (or deemed to have been so terminated), by the Company other than for Cause, death or Disability or by the Executive for Good Reason. Notwithstanding the foregoing, this Agreement shall not supersede Sections 3(d), 3(e), 3(f), 3(g), 3(h), 3(j), 3(k), or 3(l) of the Employment Agreement. To the extent that this Agreement does not supersede the Employment Agreement but provides payments or benefits in excess of those to which the Executive is entitled under the Employment Agreement, the Executive shall be entitled to (i) such excess payments and benefits and (ii) payments and benefits due pursuant to the Employment Agreement. Further, to the extent this Agreement does not supersede the Employment Agreement or any other agreement setting forth the terms and conditions of the Executive's employment with the Company, it shall not result in any duplication of benefits to the Executive. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Connecticut, without regard to its conflicts of law principles. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which the Executive has agreed. The obligations of the Company and the Executive under this Agreement which by their nature may require either partial or total performance after the expiration of the Term (including, without limitation, those under Sections 6 and 7 hereof) shall survive such expiration.

13. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

15. Settlement of Disputes. All claims by the Executive for benefits under this Agreement shall be directed to and determined by the Board and shall be in writing. Any denial by the Board of a

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claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Board shall afford a reasonable opportunity to the Executive for a review of the decision denying a claim and shall further allow the Executive to appeal to the Board a decision of the Board within sixty (60) days after notification by the Board

~~that the Executive's claim has been denied. Notwithstanding the above, in the event of any dispute, any decision by the Board hereunder shall be subject to a de novo review by a court of competent jurisdiction.~~

~~Notwithstanding any provision of this Agreement to the contrary, the Executive shall be entitled to seek specific performance of the Executive's right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.~~

~~16. Definitions. For purposes of this Agreement, the following terms shall have the meanings indicated below:~~

~~(A) "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.~~

~~(B) "Annual Base Salary" shall have the meaning set forth in Section 3(a) of the Employment Agreement.~~

~~(C) "Annual Target Bonus Percentage" shall have the meaning set forth in Section 3(b) of the Employment Agreement.~~

~~(D) "Auditor" shall have the meaning set forth in Section 6.2 hereof.~~

~~(E) "Base Amount" shall have the meaning set forth in Section 280G(b)(3) of the Code.~~

~~(F) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.~~

~~(G) "Board" shall mean the Board of Directors of the Company.~~

~~(H) "Cause" for termination by the Company of the Executive's employment shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 7.1 hereof) that has not been cured within 30 days after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in conduct which is demonstrably and materially injurious to the Company or its subsidiaries. For purposes of clauses (i) and (ii) of this definition, (x) no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company and (y) in the event of a dispute concerning the application of this provision, no claim by the Company that Cause exists shall be given effect unless the Company establishes to the Board by clear and convincing evidence that Cause exists.~~

~~(I) A "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:~~

~~(I) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities ac-quired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (III) below; or~~

~~(II) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new direc-tor (other than a director whose initial assumption of office is in connection with an actual~~

~~or threatened election contest, including but not limited to a consent solicitation, relating to the election of direc-tors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareowners was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or;~~

~~(III) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (i) a merger or consolidation which results in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or~~

~~(IV) the shareowners of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by shareowners of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.~~

~~(J) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.~~

~~(K) "Company" shall mean The Stanley Works and, except in determining under Section 15(G) hereof whether or not any Change in Control of the Company has occurred, shall include any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.~~

~~(L) "Competitive Business" shall have the meaning set forth in Section 5(c)(ii) of the Employment Agreement.~~

~~(M) "Confidential Information" shall have the meaning set forth in Section 8(a) of the Employment Agreement.~~

~~(N) "DB Pension Plan" shall mean any tax-qualified, supplemental or excess defined benefit pension plan maintained by the Company and any other defined benefit plan, agreement, or pension make-whole arrangement entered into between the Executive and the Company which is designed to provide the Executive with supplemental retirement benefits. For purposes of Section 6.1(C) hereof, if the Executive would have satisfied the condition for participation in a DB Plan (or any successor thereto) within thirty-six (36) months following the Date of Termination (i.e., assuming the Executive accrued additional age and service credit over such period), the Executive shall be deemed to have been a participant in such plan immediately prior to the Date of Termination and shall be entitled to the benefits provided under Section 6.1(C) relating thereto.~~

~~(O) "DC Pension Plan" shall mean any tax-qualified, supplemental or excess defined contribution plan maintained by the Company and any other defined contribution plan or agreement entered into between the Executive and the Company which is designed to provide the executive with supplemental retirement benefits.~~

~~(P) "Date of Termination" shall have the meaning set forth in Section 7.2 hereof.~~

~~(Q) "Disability" shall have the meaning set forth in Section 4(a) of the Employment Agreement.~~

~~(R) "Employment Agreement" shall mean the Employment Agreement by and between the Company and the Executive, dated ______________, 2004, and any subsequent amendments thereto.~~

~~(S) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.~~

~~(T) "Excise Tax" shall mean any excise tax imposed under section 4999 of the Code.~~

~~(U) "Executive" shall mean the individual named in the first paragraph of this Agreement.~~

~~(V) "Good Reason" for termination by the Executive of the Executive's employment shall mean the occurrence (without the Executive's express written consent which specifically references this Agreement) after any Change in Control, or prior to a Change in Control under the circumstances described in clauses (ii) and (iii) of the second sentence of Section 6.1 hereof (treating all references in paragraphs (I) through (VII) below to a "Change in Control" as references to a "Potential Change in Control"), of any one of the following acts by the Company, or failures by the Company to act, unless, in the case of any act or failure to act described in paragraph (I), (V), (VI) or (VII) below, such act or failure to act is corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:~~

~~(I) the assignment to the Executive of any duties inconsistent with the Executive's status as a senior executive officer of the Company or a substantial adverse alteration in the nature or status of the Executive's responsibilities from those in effect immediately prior to the Change in Control including, without limitation, if the Executive was, immediately prior to the Change in Control, an executive officer of a public company, the Executive ceasing to be an executive officer of a public company;~~

~~(II) a reduction by the Company in the Executive's annual base salary as in effect on the date hereof or as the same may be increased from time to time except for across-the-board salary reductions similarly affecting all senior executives of the Company and all senior executives of any Person in control of the Company;~~

~~(III) the relocation of the Executive's principal place of employment to a location more than thirty-five (35) miles from the Execu-tive's principal place of employment immediately prior to the Change in Control or the Company's requiring the Executive to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations;~~

~~(IV) the failure by the Company to pay to the Executive any portion of the Executive's current compensation or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due;~~

~~(V) the failure by the Company to continue in effect any compensation plan in which the Executive participates immediately prior to the Change in Control which is material to the Execu-tive's total compensation, including but not limited to the Company's 2001 Long-Term Incentive Plan and Management Incentive Compensation Plan and Section 3(j) ("Pension Make-Whole") of the Employment Agreement, or any substitute plans adopted prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of the Executive's participation relative to other participants, as existed immedi-ately prior to the Change in Control;~~

~~(VI) the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, savings, life insurance, medical, health and accident, or disability plans in which the Executive was participating immediately prior to the Change in Control (except for across the board changes~~

~~similarly affecting all senior executives of the Company and all senior executives of any Person in control of the Company), the taking of any other action by the Company which would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of the Change in Control, or the failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the Change in Control;~~

~~(VII) any purported termination of the Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 7.1 hereof; for purposes of this Agreement, no such purported termination shall be effective. The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness; or~~

~~(VIII) any event that would constitute "Good Reason" pursuant to the Employment Agreement.~~

~~The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.~~

~~For purposes of any determination regarding the existence of Good Reason in connection with a termination of employment other than as described in the second sentence of Section 6.1 hereof, any claim by the Executive that Good Reason exists shall be presumed to be correct unless the Company establishes to the Board by clear and convincing evidence that Good Reason does not exist.~~

~~(W) "Gross-Up Payment" shall have the meaning set forth in Section 6.2 hereof.~~

~~(X) "Notice of Termination" shall have the meaning set forth in Section 7.1 hereof.~~

~~(Y) "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareowners of the Company in substantially the same proportions as their ownership of stock of the Company.~~

~~(Z) "Potential Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:~~

~~(I) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;~~

~~(II) the Company or any Person publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control;~~

~~(III) any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 15% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates); or~~

~~(IV) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.~~

~~(AA) "Retirement" shall be deemed the reason for the termination by the Executive of the Executive's employment if such employment is terminated in accordance with the Company's retirement policy, including early retirement, generally applicable to its salaried employees.~~

~~(BB) "Severance Payments" shall have the meaning set forth in Section 6.1 hereof.~~

~~(CC) "Subsidiary" means any corporation or other business organization of which the securities having a majority of the normal voting power in electing the board of directors or similar governing body of such entity are, at the time of determination, owned by the Company directly or indirectly through one or more Subsidiaries.~~

~~(DD) "Target Annual Bonus Percentage" shall have the meaning set forth in Section 3(b) of the Employment Agreement.~~

~~(EE) "Tax Counsel" shall have the meaning set forth in Section 6.2 hereof.~~

~~(FF) "Term" shall mean the period of time described in Section 2 hereof (including any extension, continuation or termination described therein).~~

~~(GG) "Total Payments" shall mean those payments so described in Section 6.2 hereof.~~

~~IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.~~

~~THE STANLEY WORKS~~

~~By:~~ ______________________

~~Name: Bruce H. Beatt~~
~~Title: Vice President, General Counsel and Secretary~~

~~EXECUTIVE~~

____

~~John F. Lundgren~~

~~**EXHIBIT D**~~

~~**EXAMPLES OF PENSION MAKE-WHOLE**~~[1]

~~I. A. Description of Normal Retirement Benefit~~

- ~~Payable for retirement at or after age 65.~~
- ~~The pension is equal to 50% of the Executive's "Historical Average Compensation" (i.e., the average Cash Salary~~[2] ~~from his Prior Employer over the forty-eight (48) full calendar months preceding the Executive's termination of employment from his Prior Employer, or if fewer, all full calendar months of his employment with his Prior Employer that immediately precede termination of employment).~~
- ~~For purposes of the Pension Make-Whole, the Executive's 2003 Cash Salary is $1,040,000 and is assumed to increase at the rate of 5% per year during Executive's employment with the Company.~~
- ~~The annual normal retirement benefit that the Company will provide will be equal to 50% of the Executive's Historical Average Compensation (determined at Executive's retirement from the Company), offset by (i) retirement benefits accrued and payable under any defined benefit plans and arrangements with the Prior Employer (including retirement benefits accrued and payable under plans and arrangements with the entity that was acquired by the Prior Employer, but only if and to the degree such retirement benefits are offset by the Prior Employer under its applicable plan or arrangement) and (ii) other retirement benefits accrued and payable under plans and arrangements of the Company that do not represent the Executive's elective deferrals (e.g., 401(k) contributions).~~[3]

~~B. Normal Retirement Example:~~

~~*Assumptions:*~~

- ~~Executive is currently age 52 and retires from the Company at age 65.~~

~~[1] Note that the examples and assumptions herein are for illustrative purposes only. Numbers used in the examples herein will be revised at the time that the pension make-whole is actually calculated.~~

~~[2] "Cash Salary" shall mean base salary, annual incentive bonuses and any cash salary or annual incentive bonus which the Executive elected to defer (such Deferred Amounts, "Deferred Salary"), and excludes, without limitation, severance payments of any kind, deferred compensation under any long-term incentive program (other than Deferred Salary), bonuses for purpose of offsetting taxation and any other incentive compensation (other than annual incentive bonuses); provided that annual incentive bonuses shall be counted in the year(s) or partial year(s) with respect to which they are earned (rather than in the year of payment) and shall be prorated for partial years (if not already prorated to reflect partial year participation) included in the forty-eight (48) month averaging period and provided, further, that if the annual incentive bonus amount with respect to any part of that period is unavailable at the time retirement payments are to commence, an estimated benefit will be paid based on the available compensation data, subject to a retroactive adjustment when final data are available.~~

~~[3] For purposes of applying all offsets, accrued retirement benefits will be treated as payable (i) at the earliest date provided for in the underlying plan or arrangement and (ii) in the form of a single life annuity. Executive's election to defer receipt of such benefits and/or to have such benefits paid in a different form will not be taken into account. *These examples assume that the Executive's Prior Employer offsets the pension payable from the entity the Prior Employer acquired.*~~

- ~~Executive's Historical Average Compensation at age 65 for purposes of Pension Make-Whole is $1,820,000 (based on Cash Salary of $1,040,000, increased for 13 years, and taking the average of years 10,11,12,13).~~
- ~~Executive elects to commence payment of retirement benefits from his Prior Employer at age 62 (the earliest time at which such benefit may commence); this lifetime annual retirement benefit is assumed to be $300,000.~~
- ~~At retirement, Executive's aggregate vested account balance attributable to Company contributions (other than 401(k) elective deferrals) under Company-sponsored defined contribution plans is $1 million; the lifetime annual annuity equivalent of this account balance is $100,000 (calculated by reference to the PBGC plan termination rate then in effect and a standard mortality table selected by an actuarial firm appointed by the Company and reasonably acceptable to the Executive).~~

~~*Calculation of Pension Make-Whole:*~~

- ~~Normal Retirement Benefit = $910,000 (50% x $1,820,000)~~
- ~~Offsets = $400,000 ($300,000 + $100,000)~~
- ~~Pension Make-Whole = $510,000~~

~~II. A. Description of Early Retirement Benefit~~

- ~~Applies if Executive's employment with the Company terminates for any reason prior to age 65 (other than a termination, prior to age 55, (A) by the Company for Cause or (B) by the Executive without Good Reason).~~
- ~~The pension is equal to the normal retirement benefit, but reduced to reflect early payment (4% yearly reduction for starting the benefit before age 62). Payment will not be made prior to Executive attaining age 55.~~
- ~~The annual early retirement benefit that the Company will provide will be equal to the amount due upon early retirement, but will be subject to offset as described in "Description of Normal Retirement Benefit" above.~~

~~B. Early Retirement Example:~~

~~*Assumptions:*~~

- ~~Executive retires from the Company at age 55 after having worked for 3 years and elects that payment of Pension Make-Whole commence immediately.~~
- ~~Executive's Historical Average Compensation at age 55 for purposes of Pension Make-Whole is $1,120,000 (average of $1,040,000 plus this amount increased by 5% per year for 3 years, and taking the average of these 4 amounts).~~
- ~~At Executive's termination from the Company, he is not yet eligible to commence receipt of any retirement payments from his Prior Employer; he is first eligible to commence to receive such retirement payments at age 62, in an aggregate annual amount assumed to be $200,000.~~
- ~~At termination, Executive's aggregate vested account balance attributable to Company contributions (other than 401(k) elective deferrals) under Company-sponsored defined contribution plans is $100,000; the lifetime annual annuity equivalent of this account balance (calculated as described above for payments commencing at termination) is $5,000.~~

~~*Calculation of Pension Make-Whole:*~~

- ~~Early Retirement Benefit:~~ ~~$403,000 (50% x $1,120,000 x 72%)~~
- ~~Offset (prior to age 62):~~ ~~5,000~~
- ~~Pension Make-Whole (prior to age 62):~~ ~~$398,000~~
- ~~Additional Offset (after age 62):~~ ~~$200,000~~
- ~~Pension Make-Whole (after age 62):~~ ~~$198,000~~

~~III. A. Description of Vested Retirement Benefit~~

- ~~Payable for termination prior to age 55 by the Company for Cause or by the Executive without Good Reason.~~
- ~~Pension payable at age 62 and is equal to 1/15th of the normal retirement benefit multiplied by Executive's aggregate years of service with the Prior Employer and the Company, subject to offset as described above.~~

~~B. Vested Retirement Benefit Example:~~

~~*Assumptions:*~~

- ~~Executive voluntarily terminates employment in 2005 at age 54 without Good Reason after having worked with the Company for two years.~~
- ~~Executive's Historical Average Compensation from his Prior Employer is $930,000.~~
- ~~Executive's Historical Average Compensation at age 54 for purposes of the Pension Make-Whole is $1,080,000 (average Cash Salary for 2002-2005; i.e., 2002 Cash Salary of $1,040,000 plus 2003 Cash Salary of $1,040,000 plus this amount increased by 5% for 1 and 2 years).~~
- ~~Executive has accrued aggregate annual retirement benefits assumed to be $300,000 payable from his Prior Employer at age 62 (including a Vested Retirement Benefit of ($93,000 (50% x $930,000 x 3/15)).~~
- ~~Executive is not entitled to any other retirement benefits from the Company.~~

~~*Calculation of Pension Make-Whole (payable at age 62):*~~

- ~~Vested Retirement Benefit:~~ ~~$180,000 (50% x $1,080,000 x 5/15)~~
- ~~Offset:~~ ~~$300,000~~
- ~~Pension Make-Whole~~ ~~$0~~

~~IV. Pre-Termination Disability; Pre-Termination Death; Post-Termination Death~~

- ~~If the Executive's employment terminates as a result of Disability, Pre-Termination Death or Post-Termination Death (as each is described in the Officer Retirement Agreement between the Executive and his Prior Employer) (the "ORA"), the pension payable to or in respect of the Executive shall be reduced in accordance with the applicable reduction percentage set forth in such Officer Retirement Agreement.~~

~~V. Benefit Forms~~

- ~~The pension payable hereunder shall be paid at such time and in such manner as is set forth in the ORA.~~
- ~~The Executive may elect to have the pension payable hereunder in one of the alternative benefit forms set forth in the ORA. An actuarial firm appointed by the Company and reasonably acceptable to the Executive shall determine (with reference to the PBGC plan termination rate then in effect and a standard mortality table selected by such firm) the actuarial equivalent amount payable to the Executive and any other adjustments necessary to preserve the intent of Section 3(j) of the Employment Agreement.~~

~~EXHIBIT E~~

~~MUTUAL RELEASE~~

~~(a) John F. Lundgren ("Releasor") for and in consideration of benefits provided pursuant to an Employment Agreement with The Stanley Works entered into effective as of ______________, 2004 (the "Employment Agreement"), does for himself and his heirs, executors, administrators, successors and assigns, hereby now and forever, voluntarily, knowingly and willingly release and discharge The Stanley Works and its parents, subsidiaries and affiliates (collectively, the "Company Group"), together with their respective present and former partners, officers, directors, employees and agents, and each of their predecessors, heirs, executors, administrators, successors and assigns (but as to any partner, officer, director, employee or agent, only in connection with, or in relationship to, his to its capacity as a partner, officer, director, employee or agent of the Company and its subsidiaries or affiliates and not in connection with, or in relationship to, his or its personal capacity unrelated to the Company or its subsidiaries or affiliates) (collectively, the "Company Releasees") from any and all charges, complaints, claims, promises, agreements, controversies, causes of action and demands of~~

~~any nature whatsoever, known or unknown, suspected or unsuspected, which against the Company Releasees, jointly or severally, Releasor or Releasor's heirs, executors, administrators, successors or assigns ever had or now have by reason of any matter, cause or thing whatsoever arising from the beginning of time to the time Releasor executes this release arising out of or relating in any way to Releasor's employment or director relationship with the Company, or the termination thereof, including but not limited to, any rights or claims arising under any statute or regulation, including the Age Discrimination in Employment Act of 1967, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans with Disabilities Act of 1990, or the Family and Medical Leave Act of 1993, each as amended, or any other federal, state or local law, regulation, ordinance or common law, or under any policy, agreement, understanding or promise, written or oral, formal or informal, between any Company Releasee and Releasor. Releasor shall not seek or be entitled to any recovery, in any action or proceeding that may be commenced on Releasor's behalf in any way arising out of or relating to the matters released under this Release. Notwithstanding the foregoing, nothing herein shall release any Company Releasee from any claim or damages based on (i) the Executive's rights under the Employment Agreement, (ii) any right or claim that arises after the date the Executive executes this release, (iii) the Executive's eligibility for indemnification in accordance with applicable laws or the certificate of incorporation or by-laws of the Company (or any affiliate or subsidiary) or any applicable insurance policy, with respect to any liability the Executive incurs or incurred as a director, officer or employee of the Company or any affiliate or subsidiary (including as a trustee, director or officer of any employee benefit plan) or (iv) any right the Executive may have to obtain contribution as permitted by law in the event of entry of judgment against the Executive as a result of any act or failure to act for which the Executive and the Company or any affiliate or subsidiary are held jointly liable.~~

~~(b) Releasor has been advised to consult with an attorney of Releasor's choice prior to signing this release, has done so and enters into this release freely and voluntarily.~~

~~(c) Releasor has had in excess of twenty-one (21) calendar days to consider the terms of this release. Once Releasor has signed this release, Releasor has seven (7) additional days to revoke Releasor's consent and may do so by writing to the Company as provided in Section 12(b) of the Employment Agreement. Releasor's release shall not be effective, and no payments or benefits shall be due under Section 5(c) of the Employment Agreement, until the eighth day after Releasor shall have executed this release (the "Revocation Date") and returned it to the Company, assuming that Releasor has not revoked Releasor's consent to this release prior to the Revocation Date.~~

~~(d) The Company, for and in consideration of the Executive's covenants under the Employment Agreement, on behalf of itself and the other members of the Company Group and any other Company Releasee, their respective successors and assigns, and any and all other persons claiming through any member of the Company Group or such other Company Releasee, and each of them, does hereby now and forever, voluntarily, knowingly and willingly release and discharge, the Releasor~~

~~and dependents, administrators, agents, executors, successors, assigns, and heirs, from any and all charges, complaints, claims, promises, agreements, controversies, causes of action and demands of any nature whatsoever, known or unknown, suspected or unsuspected, which against the Releasor, jointly or severally, the Company and each other member of the Company Group or any other Company Releasee, their respective successors and assigns, and any and all other persons claiming through any member of the Company Group or such other Company Releasee ever had or now have by reason of any matter, cause or thing whatsoever arising from the beginning of time to the time the Company executes this release arising out of or relating to the Executive's employment or director relationship with the Company or the termination thereof, including, but not limited to, any claim, demand, obligation, liability or cause of action arising under any federal, state or local employment law or ordinance, tort, contract or breach of public policy theory or alleged violation of any other legal obligation. Notwithstanding the foregoing, nothing herein shall release the Releasor and his dependents, administrators, agents, executors, successors, assigns, and heirs, (i) in respect of the Company's rights under the Employment Agreement, or (ii) from any claims or damages based on any right or claim that arises after the date the Company executes this release.~~

~~(e) The Company's release shall become effective on the Revocation Date, assuming that Releasor shall have executed this release and returned it to the Company and has not revoked Releasor's consent to this release prior to the Revocation Date.~~

~~(f) In the event that any one or more of the provisions of this release shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remainder of this release shall not in any way be affected or impaired thereby.~~

~~This release shall be governed by the law of the State of Connecticut without reference to its choice of law rules.~~

~~THE STANLEY WORKS~~

~~By:~~ ______________________________________
~~Name:~~
~~Title:~~

~~Signed as of this _____ day of __________________.~~

~~EXECUTIVE~~

____

~~John F. Lundgren~~

~~Signed as of this _____ day of __________________.~~

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EXHIBIT 12

THE STANLEY WORKS AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
For the fiscal years ended January 3, 2004, December 28, 2002, December 29, 2001,
December 30, 2000, and January 1, 2000
(Millions of Dollars)

	Fiscal Year				
	2003	2002	2001	2000	1999
Earnings from continuing operations before income taxes	$133.0	$248.8	$219.7	$283.2	$229.0
Add:					
Interest expense	34.2	28.4	31.9	34.3	32.9
Portion of rents representative of interest factor	6.1	12.1	12.5	15.4	14.2
Amortization of expense on long-term debt	—	0.1	0.4	0.2	0.2
Amortization of capitalized interest	—	—	—	0.1	0.2
Deduct:					
Capitalized Interest	—	—	(0.1)	—	—
Income as adjusted	$173.3	$289.4	$264.4	$333.2	$276.5
Fixed charges:					
Interest expense	$ 34.2	$ 28.4	$ 31.9	$ 34.3	$ 32.9
Portion of rents representative of interest factor	6.1	12.1	12.5	15.4	14.2
Amortization of expense on long-term debt	—	0.1	0.4	0.2	0.2
Capitalized interest	—	—	0.1	—	—
Fixed charges	$ 40.3	$ 40.6	$ 44.9	$ 49.9	$ 47.3
Ratio of earnings to fixed charges	**4.30**	**7.13**	**5.89**	**6.68**	**5.85**

~~EXHIBIT 21~~

~~SUBSIDIARIES OF THE STANLEY WORKS~~

~~The following is a list of all active subsidiaries of The Stanley Works as of January 3, 2004. All subsidiaries, except those marked with an asterisk, are included in the Consolidated Financial Statements of The Stanley Works~~

~~CORPORATE NAME~~	~~JURISDICTION OF INCORPORATION/ ORGANIZATION~~
~~Domestic Subsidiaries~~	-
~~BAI, INC.~~	~~U.S.A. (Indiana)~~
~~China Sourcing, L.L.C.~~	~~U.S.A. (Delaware)~~
~~Contact East, Inc.~~	~~U.S.A. (Massachusetts)~~
~~JennCo1, Inc.~~	~~U.S.A. (Delaware)~~
~~JennCo2, Inc.~~	~~U.S.A. (Delaware)~~
~~Stanley Atlantic, Inc.~~	~~U.S.A. (Delaware)~~
~~Stanley-Bostitch Holding Corporation~~	~~U.S.A. (Delaware)~~
~~Stanley Canada Holdings, L.L.C.~~	~~U.S.A. (Delaware)~~
~~Stanley European Holdings, L.L.C.~~	~~U.S.A. (Delaware)~~
~~Stanley Fastening Systems, LP~~	~~U.S.A. (Delaware)~~
~~Stanley Funding Corporation*~~	~~U.S.A. (Delaware)~~
~~Stanley Housing Fund, Inc.~~	~~U.S.A. (Delaware)~~
~~Stanley International Holdings, Inc.~~	~~U.S.A. (Delaware)~~
~~Stanley Israel Investments, Inc.~~	~~U.S.A. (Delaware)~~
~~Stanley Logistics, Inc.~~	~~U.S.A. (Delaware)~~
~~Stanley Pacific Inc.~~	~~U.S.A. (Delaware)~~
~~Stanley Receivables Corporation*~~	~~U.S.A. (Delaware)~~
~~Stanley Security Solutions, Inc.~~	~~U.S.A. (Indiana)~~
~~The Farmington River Power Company~~	~~U.S.A. (Connecticut)~~
~~ZAG USA, Inc.~~	~~U.S.A. (Delaware)~~

~~CORPORATE NAME~~	~~JURISDICTION OF INCORPORATION/ ORGANIZATION~~
~~International Subsidiaries~~	
~~A.M.T.Y. Vermogensverwoltan G.m.b.H.~~	~~Island of Nevis~~
~~Beijing Daxing Stanley-Bostitch Metal Industries Co., Ltd.~~	~~China~~
~~Best Access Systems Co. / Les Systemes D'Acces Best Cie~~	~~Canada (Nova Scotia)~~
~~Best Access Systems Limited~~	~~Hong Kong~~
~~Best Systems Corporation Pte. Ltd.~~	~~Singapore~~
~~Charge Industries, Inc.~~	~~Canada (Nova Scotia)~~
~~Chiro Tools Holdings B.V.~~	~~Netherlands~~
~~Design & Shoot Ltd.~~	~~Israel~~
~~F.I.P.A. Due S.r.l.~~	~~Italy~~
~~Friess G.m.b.H.~~	~~Germany~~
~~Herramientas Stanley S.A. de C.V.~~	~~Mexico~~
~~International Staple & Machine Co Belgium N.V.~~	~~Belgium~~
~~Mac Tools Canada Inc.~~	~~Canada (Ontario)~~
~~Mosley-Stone Limited~~	~~United Kingdom~~
~~R.G.T.I. Ltd.~~	~~Island of Nevis~~
~~S.A. Stanley Works (Belgium) N.V.~~	~~Belgium~~
~~Stanley Bostitch G.m.b.H.~~	~~Germany~~
~~Stanley-Bostitch, S.A. de C.V.~~	~~Mexico~~
~~Stanley Canada Corporation~~	~~Canada (Nova Scotia)~~
~~Stanley Chiro International Ltd.~~	~~Taiwan~~

~~Societe Civile Immobiliere WAT~~	~~France~~
~~Stanley CLP1~~	~~Canada (Alberta)~~
~~Stanley CLP2~~	~~Canada (Alberta)~~
~~Stanley de Chihuahua S. de R.L. de C.V.~~	~~Mexico~~
~~Stanley do Brasil Ltda.~~	~~Brazil~~
~~Stanley Doors France, S.A.S.~~	~~France~~
~~Stanley Europe B.V.B.A.~~	~~Belgium~~
~~Stanley European Holdings B.V.~~	~~Netherlands~~
~~Stanley European Holdings II B.V.~~	~~Netherlands~~
~~Stanley Fastening Systems Poland (SP.z.o.o.)~~	~~Poland~~

~~CORPORATE NAME~~	~~JURISDICTION OF INCORPORATION/ ORGANIZATION~~
~~Stanley Finance Hungary Group Financing Limited Liability Company~~	~~Hungary~~
~~Stanley Foreign Sales Corporation~~	~~Virgin Islands~~
~~Stanley France Services, SAS~~	~~France~~
~~Stanley France, S.A.S.~~	~~France~~
~~Stanley Iberia S.L.~~	~~Spain~~
~~Stanley Israel Investments B.V.~~	~~Netherlands~~
~~Stanley Italia S.r.l.~~	~~Italy~~
~~Stanley Nordic ApS~~	~~Denmark~~
~~Stanley Sales and Marketing Poland Sp.z.o.o.~~	~~Poland~~
~~Stanley Svenskas Aktiebolag~~	~~Sweden~~
~~Stanley (Tianjin) International Trading Co. Ltd.~~	~~China~~
~~Stanley Tools (N.Z.) Ltd.~~	~~New Zealand~~
~~Stanley Tools France, S.A.S.~~	~~France~~
~~Stanley Tools S.r.l.~~	~~Italy~~
~~Stanley U.K. Holding Ltd.~~	~~United Kingdom~~
~~Stanley UK Limited~~	~~United Kingdom~~
~~Stanley UK Sales Limited~~	~~United Kingdom~~
~~Stanley UK Services Limited~~	~~United Kingdom~~
~~Stanley Works Asia Pacific Pte. Ltd.~~	~~Singapore~~
~~Stanley Works China Investments Limited~~	~~British Virgin Islands~~
~~Stanley Works (Europe) AG~~	~~Switzerland~~
~~Stanley Works Holdings B.V.~~	~~Netherlands~~
~~Stanley Works (India) Private Limited~~	~~India~~
~~Stanley Works Limited (Thailand)~~	~~Thailand~~
~~Stanley Works (Malaysia) Sdn Bhd~~	~~Malaysia~~
~~Stanley Works (Nederland) B.V.~~	~~Netherlands~~
~~Stanley (Zhongshan) Hardware Co., Ltd.~~	~~China~~
~~Suomen Stanley OY~~	~~Finland~~
~~T.S.W. Israel Investments Ltd.~~	~~Israel~~
~~The Stanley Works (Bermuda) Ltd.~~	~~Bermuda~~
~~The Stanley Works C.V.~~	~~Netherlands~~

~~CORPORATE NAME~~	~~JURISDICTION OF INCORPORATION/ ORGANIZATION~~
~~The Stanley Works Japan K.K.~~	~~Japan~~
~~The Stanley Works Limited~~	~~United Kingdom~~
~~The Stanley Works Pty. Ltd.~~	~~Australia~~

~~The Stanley Works Sales (Philippines), Inc.~~	~~Philippines~~
~~The Stanley Works (Shanghai) Co., Ltd.~~	~~China~~
~~The Stanley Works (Zhongshan) Tool Co., Ltd.~~	~~China~~
~~Tona a.s. Pecky~~	~~Czech Republic~~
~~ZAG Industries Ltd.~~	~~Israel~~
~~ZAG Israel Marketing Ltd.~~	~~Israel~~
~~ZAG Latin America Ltd.~~	~~Brazil~~
~~ZAG Operation (Assets) Ltd.~~	~~Israel~~
~~ZAG U.K. Limited~~	~~United Kingdom~~

~~EXHIBIT 24~~

~~POWER OF ATTORNEY~~

~~We, the undersigned directors of The Stanley Works, a Connecticut corporation (the "Corporation"), hereby severally constitute Bruce H. Beatt, David S. Winakor, and Kathryn Partridge our true and lawful attorneys with full power of substitution, to sign for us and in our names in the capacities indicated below, the Annual Report on Form 10-K for the year ended January 3, 2004 of the Corporation filed herewith (the "Form 10-K"), and any and all amendments thereof, and generally to do all such things in our name and on our behalf in our capacities as directors to enable the Corporation to comply with the annual filing requirements under the Securities Act of 1934, as amended, including all requirements of the Securities and Exchange Commission and all requirements of any other applicable law or regulation, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to such Form 10-K and any and all amendments thereto.~~

~~Signature~~	~~Title~~	~~Date~~
~~/s/ John G. Breen~~ ~~John G. Breen~~	~~Director~~	~~January 23, 2004~~
~~/s/ Robert G. Britz~~ ~~Robert G. Britz~~	~~Director~~	~~January 23, 2004~~
~~/s/ Stillman B. Brown~~ ~~Stillman B. Brown~~	~~Director~~	~~January 23, 2004~~
~~/s/ Virgis W. Colbert~~ ~~Virgis W. Colbert~~	~~Director~~	~~January 23, 2004~~
~~/s/ Emmanuel A. Kampouris~~ ~~Emmanuel A. Kampouris~~	~~Director~~	~~January 23, 2004~~
~~/s/ Eileen S. Kraus~~ ~~Eileen S. Kraus~~	~~Director~~	~~January 23, 2004~~
~~/s/ John D. Opie~~ ~~John D. Opie~~	~~Director~~	~~January 23, 2004~~
— ~~Derek V. Smith~~	~~Director~~	~~January 23, 2004~~
~~/s/ Kathryn D. Wriston~~ ~~Kathryn D. Wriston~~	~~Director~~	~~January 23, 2004~~

~~EXHIBIT 31 (i)~~

~~CERTIFICATIONS~~

~~I, John F. Lundgren, certify that:~~

~~1. I have reviewed this report on Form 10-K of The Stanley Works and subsidiaries;~~

~~2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;~~

~~3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;~~

~~4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:~~

> ~~a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;~~
>
> ~~b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and~~
>
> ~~c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and~~

~~5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):~~

> ~~a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and~~
>
> ~~b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.~~

~~Date: March 16, 2004~~

-	~~/s/ John F. Lundgren~~
	~~John F. Lundgren~~
-	~~Chairman and Chief Executive Officer~~

~~**EXHIBIT 31 (ii)**~~

~~**CERTIFICATIONS**~~

~~I, James M. Loree, certify that:~~

~~1. I have reviewed this report on Form 10-K of The Stanley Works and subsidiaries;~~

~~2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;~~

~~3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;~~

~~4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:~~

> ~~a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;~~
>
> ~~b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and~~
>
> ~~c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and~~

~~5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):~~

> ~~a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and~~
>
> ~~b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.~~

~~Date: March 16, 2004~~

-	~~/s/ James M. Loree~~
	~~James M. Loree~~
	~~Executive Vice President, Finance~~
-	~~and Chief Financial Officer~~

~~**EXHIBIT 32 (i)**~~

~~**THE STANLEY WORKS**~~
~~**CERTIFICATION PURSUANT TO**~~
~~**18 U.S.C. SECTION 1350,**~~
~~**AS ADOPTED PURSUANT TO**~~
~~**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**~~

~~In connection with the Annual Report of The Stanley Works (the "Company") on Form 10-K for the period ending January 3, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John F. Lundgren, Chairman and Chief Executive Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:~~

~~(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and~~

~~(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.~~

~~/s/ John F. Lundgren~~ -
~~John F. Lundgren~~
~~Chairman and Chief Executive Officer~~ -

~~March 16, 2004~~

~~**EXHIBIT 32 (ii)**~~

~~**THE STANLEY WORKS**~~
~~**CERTIFICATION PURSUANT TO**~~
~~**18 U.S.C. SECTION 1350,**~~
~~**AS ADOPTED PURSUANT TO**~~
~~**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**~~

~~In connection with the Annual Report of The Stanley Works (the "Company") on Form 10-K for the period ending January 3, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James M. Loree, Executive Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:~~

~~(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and~~

~~(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.~~

~~/s/ James M. Loree~~
~~James M. Loree~~
~~Executive Vice President and Chief Financial Officer~~
~~March 16, 2004~~