

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

FORM 10-K  
ANNUAL REPORT

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 28, 1996

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE 1-5224

THE STANLEY WORKS  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CONNECTICUT 06-0548860  
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER  
INCORPORATION OR ORGANIZATION) 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<br>-----             | NAME OF EACH EXCHANGE<br>ON WHICH REGISTERED<br>----- |
|--|---|
| Common Stock--Par Value \$2.50 Per Share | New York Stock Exchange<br>Pacific Stock Exchange     |
| 9% Notes due 1998                        |   |
| 7 3/8% Notes Due December 15, 2002       |   |

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 [ ].

The aggregate market value of Common Stock, par value \$2.50 per share, held  
by non-affiliates (based upon the closing sale price on the New York Stock  
Exchange) on March 14, 1997 was approximately \$3.5 billion. As of March 14,  
1997, there were 88,966,440 shares of Common Stock, par value \$2.50 per share,  
outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended  
December 28, 1996 are incorporated by reference into Parts I and II.  
Portions of the definitive Proxy Statement dated March 10, 1997, filed with  
the Commission pursuant to Regulation 14A, are incorporated by reference into  
Part III.

Part I

Item 1. Business

1(a) Introduction. (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 manufacturer and marketer of tools, hardware and specialty hardware offering a wide range of products for home improvement, consumer, industrial and professional use. Stanley(R) is a brand recognized around the world for quality and value.

In 1996, Stanley had net sales of \$2.7 billion and employed approximately 19,000 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) Strategic Restructuring. In July 1995, the Company announced a multi-year restructuring program in order to create a more competitive cost base and to fuel long-term growth. The program encompasses all of the Company's businesses and focuses on the profitability potential of each product category.

In 1996, under this restructuring program the Company sold a number of businesses and product lines that did not meet the Company's criteria for revenue growth and profitability. In addition, numerous facilities, particularly in the Tools segment were closed. The Company's investment in assets was also reduced primarily through inventory management activities and divestitures. The Company has begun to reinvest some of these savings in its best performing businesses and to fund growth initiatives such as national advertising to build upon the equity in the Stanley(R) brand.

While the initial target of \$400 million in cost and asset reductions will likely be reached in 1997, the Company's new Chief Executive Officer has appointed seven task forces to examine areas for additional change. The task forces have the objectives of reducing the number of manufacturing locations, realigning the organizational structure, reducing working capital, increasing new product development and identifying opportunities for product and market extensions. The Company expects that plans currently in place and being developed will result in restructuring charges and restructuring related transition costs in 1997 and possibly beyond. While the Company is unable to estimate the amount of these charges, it is anticipated that they will be significant.

1(b) Industry Segment Information. Financial information regarding the Company's industry segments is incorporated herein

by reference from page 19 of the Company's Annual Report to Shareholders for the year ended December 28, 1996.

1(c) Narrative Description of Business. The Company's operations are classified into three industry segments: Tools, Hardware and Specialty Hardware.

Tools. The Tools segment manufactures and markets consumer, industrial and engineered tools. Consumer tools includes hand tools such as measuring instruments, planes, hammers, knives and blades, wrenches, sockets, screwdrivers, saws, chisels, boring tools, masonry, tile and drywall tools, paint preparation and paint application tools. Industrial tools includes industrial and mechanics hand tools, including STANLEY-PROTO(R) industrial tools and MAC(R) mechanics tools, and high-density industrial storage and retrieval systems. Engineered tools includes STANLEY-BOSTITCH(R) fastening tools and fasteners used for commercial, industrial, construction, packaging and consumer use; hydraulic tools (these are hand-held hydraulic tools used by contractors, utilities, railroads and public works as well as mounted demolition hammers and compactors designed to work on skid steer loaders, mini-excavators, backhoes and large excavators); and air tools (these are high performance, precision assembly tools, controllers and systems for tightening threaded fasteners used chiefly by vehicle manufacturers).

Hardware. The hardware segment manufactures and markets hardware products ranging from hinges, hasps, shelf brackets, bolts and latches to a line of closet organizing systems and mirrored closet doors, door hardware and wall mirrors.

Specialty Hardware. The specialty hardware segment manufactures and markets residential insulated steel and reinforced fiberglass entrance door systems and automatic doors. The garage-related products business was disposed of in February, 1997.

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 is also striving to find new customers both within the markets that it currently serves and in new markets around the world.

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. In 1996, the Company invested approximately \$104 million in facilities, new equipment, technology and software in order to achieve enhanced customer service, operational excellence in manufacturing and new product

innovation.

In the Company's consumer hand tool and consumer hardware businesses, a small number of competitors produce a range of products somewhat comparable to the Company's, but the majority of its competitors compete only with respect to one or more individual products within a particular line. The Company believes that it is the largest manufacturer of consumer hand tools in the world and that it offers the broadest line of such products. The Company believes that its market position in the U.S. and Canada for consumer hardware is comparable to or greater than that of its major competitors and that it offers the broadest line of hinges and home hardware, which represents the most important part of its hardware product sales.

In the Company's industrial tool business in the U.S., the Company believes that it is the leading manufacturer of high-density industrial storage cabinets. In the Company's engineered tool business in the U.S., the Company believes that it is the leader in the manufacture and sale of pneumatic fastening tools and related fasteners to professional contractors and to the furniture and pallet industries as well as the leading manufacturer of hand-held hydraulic tools and a leading manufacturer of mounted hydraulic tools.

In the Company's hardware business in the U.S., the Company believes that it is a leading manufacturer of builders and architectural hardware products, mirrored closet doors and hardware for sliding, folding and pocket doors and the leading supplier of wall mirrors.

In the Company's specialty hardware business, the Company believes that it is the leader in the U.S. with respect to the manufacture and sale of insulated steel residential entrance doors as well as the leader in the U.S. in the manufacture, sale and installation of power-operated sliding doors.

Customers. A substantial portion of the Company's products are sold through home centers and mass merchant distribution channels in the U.S. A consolidation of retailers in these channels 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 certain of the larger home centers as customers would have a material adverse effect on each of the Company's business segments until either such customers are replaced or the Company makes the necessary adjustments to compensate for the loss of business. The Company's "Power of One" initiative is directed at preserving and

strengthening these relationships. Through the "Power of One", the Company will offer its customers a single contact for all of the Company's support systems. When this initiative is completed, customers will be able to place one order, receive one shipment, pay one invoice and deal with one team of employees even though the Company operates through multiple business units.

Raw Materials. The Company's products are manufactured primarily of steel and other metals, although some are of wood or plastic. The raw materials required are available from a number of sources at competitive prices and the Company has relationships of long standing with many of its suppliers. The Company has experienced no difficulties in obtaining supplies in recent periods.

Backlog. At February 1, 1997, the Company had approximately \$149 million in unfilled orders compared with \$137 million in unfilled orders at February 3, 1996. All 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. The Company has begun implementation of demand flow production, which aligns inventory levels with actual demand, in three of its manufacturing facilities.

Patents and Trademarks. No business segment is dependent, to any significant degree, on patents, licenses, franchises or concessions and the loss of these patents, licenses, franchises or concessions would not have a material adverse effect on any business segment. The Company owns numerous patents, none of which are material to the Company's operations as a whole. These patents expire from time to time over the next 17 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 17 years.

The Company has numerous trademarks that are utilized in its businesses worldwide. The STANLEY(R) and STANLEY (in a notched rectangle)(R) trademarks are material to all three business segments. These well-known trademarks enjoy a reputation for quality and value and are among the world's most trusted brand names. In addition, in the Tools segment, the Bostitch(R), Powerlock(R), Tape Rule Case Design (Powerlock)(R), LaBounty(R), MAC Tools(R), Proto(R), Jensen(R), Goldblatt(R) and Vidmar(R) trademarks are material to the business.

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 involved with remedial and other environmental compliance activities at some of its current and former sites. Additionally, the Company, together with many other parties, has been named as a potentially responsible party ("PRP") in a number of administrative proceedings for the remediation of various waste sites, including nine 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 PRP's, whether responsibility is being disputed, the terms of existing agreements, experience at similar sites, and the fact that its 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 December 28, 1996, the Company had reserves of \$29 million, primarily for remediation activities associated with company-owned properties as well as for Superfund sites.

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 financial position, results of operations or liquidity.

Power-generating Subsidiary. Under the General Statutes of Connecticut, the Company is deemed to be a "holding company" that controls an electric company as a result of its being the sole shareholder of Farmington River Power Co., a power-generating subsidiary of the Company since 1916. Under such statute, no organization or person may take any action to acquire control of such a holding company without the prior approval of the

Connecticut Department of Public Utility Control.

Employees. During 1996, the Company had approximately 19,000 employees, approximately 12,000 of whom were employed in the U.S. Of these U.S. employees, approximately 24% are covered by collective bargaining agreements with approximately 12 labor unions. The majority of the Company's hourly- and weekly-paid employees outside the U.S. are covered by collective bargaining agreements. The Company's labor agreements in the U.S. expire in 1997, 1998, 1999 and 2000. 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.

Cautionary Statements. Certain risks and uncertainties are inherent in the company's ability to implement the recommendations of the task forces, to complete the competitive positioning of its cost structure through its restructuring initiatives and to achieve sustained, profitable growth.

The company's ability to implement successfully all of its restructuring initiatives, including the relocation and consolidation of multiple manufacturing operations, the realignment of the organizational structure and the success of the Perfect Customer Service Program, is dependent on such factors as the ability of its employees, with the help of outside consultants, to develop and execute comprehensive plans to provide for smooth transitions, the resolution of any labor issues related to closing facilities, the successful recruitment and training of new employees, the need to respond to significant changes in product demand during the transition and unforeseen events. In addition, the company's ability to retain profits from the profitability improvements that have been attributable to the restructuring initiatives is dependent on the extent of pricing pressure within the company's markets, the continued consolidation of customers in consumer channels, increasing global competition, changes in trade, monetary and fiscal policies and laws, inflation and currency exchange fluctuations, as well as recessionary or expansive trends in the economies in which the company operates.

The company's ability to generate sustained, profitable growth is dependent on its ability to competitively position its cost structure, to gain acceptance of the company's products within new or developing markets and to continue the development of successful new products. The achievement of externally-generated growth will depend upon the ability to successfully identify, negotiate, consummate and integrate into operations, acquisitions, joint ventures and/or strategic alliances.

1(d) Financial information about foreign and domestic operations and export sales. Geographic area information on page

19 of the Annual Report to Shareholders for the year ended December 28, 1996 is incorporated herein by reference.

Item 2. Properties.

As of December 28, 1996, Registrant and its subsidiaries owned or leased facilities for manufacturing, distribution and sales offices in 28 states and 33 foreign countries. The Registrant believes that its facilities are suitable and adequate for its business.

A summary of material locations (over 50,000 square feet) that are owned by the Registrant and its subsidiaries are:

Tools

Phoenix, Arizona; Visalia, California; Clinton and New Britain, Connecticut; Shelbyville, Indiana; Kansas City, Kansas; Two Harbors, Minnesota; Hamlet and Sanford, North Carolina; Columbus, Georgetown and Sabina, Ohio; Allentown, Royersford and York, Pennsylvania; East Greenwich, Rhode Island; Cheraw, South Carolina; Pulaski and Shelbyville, Tennessee; Dallas and Wichita Falls, Texas; Pittsfield and Shaftsbury, Vermont; Hedelberg West, Ingleburn and Moonah, Australia; Sao Paulo, Brazil; Smiths Falls and Toronto, Canada; Pecky, Czech Republic; Ecclesfield, Hellaby, Manchester and Sheffield, England; Besancon Cedex and Maxonchamp, France; Wieseth, Germany; Surabaya, Indonesia; Chihuahua and Puebla, Mexico; Taichung Hsien, Taiwan; and Amphur Bangpakong, Thailand.

Hardware

Chatsworth and San Dimas, California; New Britain, Connecticut; Richmond, Virginia; Brampton, Canada; Sheffield, England; and Marquette, France.

Specialty Hardware

Farmington, Connecticut; Birmingham, Novi and Troy, Michigan; and Covington, Ohio.

A summary of material locations (over 50,000 square feet) that are leased by the Registrant and its subsidiaries are:

Tools

Costa Mesa, California; Covington, Georgia; Fernley, Nevada; Charlotte and Kannapolis, North Carolina; Cleveland and Columbus, Ohio; Milwaukie, Oregon; Carrollton, Texas; Burlington and Mississauga, Canada; Northampton, England; and Saverne, France.

Hardware

Lenexa, Kansas; Tupelo, Mississippi; and Oakville, Ontario.

Specialty Hardware

Rancho Cucamonga, California; Orlando, Florida; Winchester, Virginia; Langley and Montreal, Canada.

Item 3. Legal Proceedings.

On November 30, 1995, the U.S. Department of Justice ("DOJ") filed a civil complaint against the Company and sixteen other defendants pursuant to the Federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). Under CERCLA, the DOJ can seek to impose strict liability and joint and several liability on liable parties.

The DOJ is seeking recovery of past response costs of approximately \$1.3 million incurred by the United States Environmental Protection Agency ("EPA") at the Erie Coatings and Chemicals ("Erie") site in Erie, Michigan and a declaratory judgment that the defendants are liable for future response costs. The majority of the EPS's response costs were incurred in removing drums of materials from the site. The EPA also conducted some limited soil removal. It is the Company's understanding that it is unlikely that any additional significant remediation work will be necessary.

Eight defendants (including the Company) filed a third party contribution claim against the 23 parties and a counterclaim against various federal agencies that sent materials to the site. The eight defendants along with various third-party defendants have reached an agreement in principle with the government to settle the litigation for \$900,000. The Company has agreed to pay approximately \$120,000 of the settlement amount. The settlement does not resolve the Company's potential liability for response costs that may be incurred by the government in the future. However, it is the Company's understanding that it is unlikely that the government will incur significant future response costs.

The proposed settlement must be published in the Federal Register for comment. It is possible that the court will not approve the consent decree in the form presented based on the receipt of public comments in opposition to the settlement. The Company does not believe that this is likely. In any event, the Company does not believe that its costs in connection with the Erie site will be material.

In the normal course of business, the Company is involved in various lawsuits and claims, including product liability and distributor claims. 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 the Registrant's last fiscal year to a vote of security holders.

Executive Officers. The following is a list of the executive officers of the Registrant as of December 28, 1996:

| Name, Age, Birth date<br>-----   | Office<br>-----  | Elected<br>to Office<br>----- |
|----------------------------------|--|-------------------------------|
| R.H. Ayers (54)<br>(10/12/42)    | Chairman, President and Chief Executive Officer. Joined Stanley in 1972; 1985 Chief Operating Officer and President; 1987 President and Chief Executive Officer. (1)                                   | 4/19/89                       |
| B.W. Bennett (53)<br>(6/4/43)    | Vice President, Human Resources. Joined Stanley in 1984 as Taylor Rental Training Manager; 1990 Director, Organization Development; 1991 Vice President, Human Resources, Stanley Access Technologies. | 7/1/92                        |
| J.B. Gustafson (53)<br>(5/10/43) | Vice President, Information Systems. Joined Stanley in 1977; 1986 Director of Information Systems.   | 1/1/90                        |
| R. Huck (52)<br>(2/22/45)        | Vice President, Finance and Chief Financial Officer. Joined Stanley in 1970; 1987 Controller, Stanley Tools; 1990 Vice President and Controller.   | 7/1/93                        |
| R.A. Hunter (50)<br>(12/15/46)   | President and Chief Operating Officer. Joined Stanley in 1974; 1987 Vice President, Finance and Chief Financial Officer.   | 7/1/93                        |

(1) As of December 31, 1996, John M. Trani was elected Chairman and Chief Executive Officer of the Company replacing Mr. Ayers who announced his retirement in April 1996. Mr. Trani was previously employed by General Electric Company since 1978 and served as the president and chief executive officer of GE Medical Systems from 1986 through December 1996.

|                                |  |         |
|--------------------------------|--|---------|
| T.E. Mahoney (54)<br>(3/20/42) | Vice President, Marketing Development and President and General Manager of Stanley Customer Support Division. Joined Stanley in 1965; 1988 President and General Manager, National Hand Tools business unit; 1992 President and General Manager, Stanley Hardware. | 6/5/95  |
| P.W. Russo (43)<br>(5/22/53)   | Vice President, Strategy and Development. Joined Stanley in 1995; 1991 Co-Chairman and Co-Chief Executive Officer, SV Corp. (formerly Smith Valve Corp.); 1988 Co-founder and Managing Director, Cornerstone Partners Limited.                                     | 9/18/95 |
| S.S. Weddle (58)<br>(11/9/38)  | Vice President, General Counsel and Secretary. Joined Stanley in 1978.   | 1/1/88  |
| T. F. Yerkes (41)<br>(9/9/55)  | Vice President and Controller. Joined Stanley in 1989 from Ernst & Young, certified public accountants; 1989 Director of Consolidations and Accounting Services; 1990 Director of Accounting and Financial Reporting.  | 7/1/93  |

Executive officers serve at the pleasure of the Board of Directors. Unless otherwise indicated, each officer has had the same position with the Registrant for five years.

#### Part II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters. Registrant incorporates by reference the line item "Shareholders of record at end of year" from pages 20 and 21 and the material captioned "Investor and Shareholder Information" on page 41 of its Annual Report to Shareholders for the year ended December 28, 1996.

Item 6. Selected Financial Data. Registrant incorporates by reference pages 20 and 21 of its Annual Report to Shareholders for the year ended December 28, 1996.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Registrant incorporates by reference pages 22 through 25 of its Annual Report to Shareholders for the year ended December 28, 1996.

Item 8. Financial Statements and Supplementary Data. The consolidated financial statements and report of independent auditors included on pages 26 to 39 and page 18, respectively, of

the Annual Report to Shareholders for the year ended December 28, 1996 are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure. None.

#### Part III

Item 10. Directors and Executive Officers of the Registrant. Information regarding the Company's Executive Officers appears in the "Executive Officers" section at the end of Part I of this report. In addition, the Registrant incorporates by reference pages 1 through 4 of its definitive Proxy Statement, dated March 10, 1997.

Item 11. Executive Compensation. Registrant incorporates by reference the last paragraph of "Information Concerning Directors Continuing in Office" on page 4 and the material captioned "Executive Compensation" on pages 7 through 13 of its definitive Proxy Statement, dated March 10, 1997.

Item 12. Security Ownership of Certain Beneficial Owners and Management. Registrant incorporates by reference the material captioned "Security Ownership" on pages 5 and 6 of its definitive Proxy Statement, dated March 10, 1997.

Item 13. Certain Relationships and Related Transactions. None.

#### PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

14(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 14 is submitted as a separate section of this report (see page F-1).

3. Exhibits

See Exhibit Index on page E-1.

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

| Date of Report<br>----- | Items Reported<br>-----   |
|-------------------------|---|
| October 16, 1996        | Press release, dated October 16, 1996 announcing third quarter results. |

14(c) See Exhibit Index on page E-1.

14(d) The response to this portion of Item 14 is submitted as a separate section of this report (see page F-1).

SIGNATURES

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

THE STANLEY WORKS

By John M. Trani

-----  
John M. Trani, Chairman  
and Chief Executive Officer

February 26, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 26, 1997 by the following persons on behalf of the Registrant and in the capacities indicated.

John M. Trani

-----  
John M. Trani, Chairman,  
Chief Executive Officer and  
Director

Eileen S. Kraus

-----  
Eileen S. Kraus, Director

Richard Huck

-----  
Richard Huck, Vice President,  
Finance and Chief Financial  
Officer

George A. Lorch

-----  
George A. Lorch, Director

Theresa F. Yerkes

-----  
Theresa F. Yerkes, Vice President  
and Controller (Chief Accounting  
Officer)

James G. Kaiser

-----  
James G. Kaiser, Director

Stillman B. Brown

-----  
Stillman B. Brown, Director

Gertrude G. Michelson

-----  
Gertrude G. Michelson, Director

Edgar R. Fiedler

-----  
Edgar R. Fiedler, Director

John S. Scott

-----  
John S. Scott, Director

Mannie L. Jackson

-----  
Mannie L. Jackson, Director

Kathryn D. Wriston

-----  
Kathryn D. Wriston, Director

THE STANLEY WORKS AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements and report of independent auditors of The Stanley Works and subsidiaries, included in the Annual Report of the Registrant to its Shareholders for the fiscal year ended December 28, 1996, are incorporated by reference in Item 8:

Report of Independent Auditors

Consolidated Statements of Earnings--fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994.

Consolidated Balance Sheets--December 28, 1996 and December 30, 1995.

Consolidated Statements of Cash Flows--fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994.

Consolidated Statements of Changes in Shareholders' Equity--fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994.

Notes to Consolidated Financial Statements.

The following consolidated financial statement schedule of The Stanley Works and subsidiaries is included in Item 14(d):

F-4 Schedule -- II--Valuation and Qualifying Accounts

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 this Annual Report (Form 10-K) of The Stanley Works of our report dated January 23, 1997, included in the 1996 Annual Report to Shareholders of The Stanley Works.

Our audits also included the consolidated financial statement schedule of The Stanley Works listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the following registration statements of our report dated January 23, 1997, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the consolidated financial statement schedule included in this Annual Report (Form 10-K) of The Stanley Works.

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)

ERNST & YOUNG LLP

Hartford, Connecticut  
March 13, 1997

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following registration statements pertaining to The Stanley Works 401(k) Savings Plan of our report dated March 13, 1997, with respect to the financial statements and schedules of The Stanley Works 401(k) Savings Plan for the year ended December 31, 1996 included as Exhibit 99(i) to this Annual Report (Form 10-K) for the fiscal year ended December 28, 1996.

Registration Statement (Form S-8 No. 2-97283)  
Registration Statement (Form S-8 No. 33-41612)  
Registration Statement (Form S-8 no. 33-55663)

ERNST & YOUNG LLP

Hartford, Connecticut  
March 13, 1997

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
 THE STANLEY WORKS AND SUBSIDIARIES

Fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994  
 (In Millions of Dollars)

| COL. A      | COL. B     | COL. C           |                   | COL. D     | COL. E    |
|-------------|------------|------------------|-------------------|------------|-----------|
| Description | Balance at | Additions        |                   | Deductions | Balance   |
|             | Beginning  | (1)              | (2)               |            |           |
|             | Of Period  | Charged to Costs | Charged to Other  | -Describe  | of Period |
|             |            | and Expenses     | Accounts-Describe |            |           |

Fiscal year ended December 28, 1996

Reserves and allowances deducted from  
 asset accounts:

Allowance for doubtful accounts:

|            |        |        |  |            |        |
|------------|--------|--------|--|------------|--------|
| Current    | \$18.2 | \$21.1 |  | \$16.8 (A) | \$22.5 |
| Noncurrent | 0.8    |        |  |            | 0.8    |

Fiscal year ended December 30, 1995

Reserves and allowances deducted from  
 asset accounts:

Allowance for doubtful accounts:

|            |        |       |                      |            |        |
|------------|--------|-------|----------------------|------------|--------|
| Current    | \$20.9 | \$9.7 | \$0.3 (B)<br>0.1 (C) | \$12.8 (A) | \$18.2 |
| Noncurrent | 0.5    | 0.3   |                      |            | 0.8    |

Fiscal year ended December 31, 1994

Reserves and allowances deducted from  
 asset accounts:

Allowance for doubtful accounts:

|            |        |       |              |            |        |
|------------|--------|-------|--------------|------------|--------|
| Current    | \$24.8 | \$8.2 | \$ (0.1) (B) | \$12.0 (A) | \$20.9 |
| Noncurrent | 0.0    |       | 0.5 (B)      |            | 0.5    |

Notes: (A) Represents doubtful accounts charged off, less recoveries of  
 accounts previously charged off. (B) Represents net transfers from  
 other accounts and foreign currency translation adjustments.  
 (C) Represents opening balances related to acquired companies.

EXHIBIT LIST

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- (3) (i) Restated Certificate of Incorporation  
(incorporated by reference to Exhibit (3) (i) to  
Quarterly Report on Form 10-Q for quarter ended  
June 29, 1996)
- (ii) By-laws
- (4) (i) Indenture defining the rights of holders of 7-3/8%  
Notes Due December 15, 2002 and 9% Notes due 1998  
(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 Shawmut Bank Connecticut, National  
Association (formerly known as The Connecticut National Bank)  
(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 9% Notes (incorporated by reference to Exhibit  
(4) (i) (c) to Annual Report on Form 10-K for year ended  
January 2, 1988)
- (b) Certificate of Designated Officers establishing  
Terms of 7-3/8% Notes Due December 15, 2002 (incorporated by  
reference to Exhibit (4) (ii) to Current Report on Form 8-K  
dated December 7, 1992)
- (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) Amended and Restated Facility A (364 Day) Credit Agreement,  
dated as of October 23, 1996, with the banks named therein  
and Citibank, N.A. as agent
- (v) Amended and Restated Facility B (Five Year) Credit  
Agreement, dated as of October 23, 1996, with the banks  
named therein and Citibank, N.A. as agent
- (10) (i) Executive Agreements (incorporated by reference  
to Exhibit 10(i) to Annual Report on Form 10-K  
for year ended January 3, 1987)\*

\* Management contract or compensation plan or arrangement

- (ii) Deferred Compensation Plan for Non-Employee Directors as amended January 31, 1996 (incorporated by reference to Exhibit 10(i) to Current Report on Form 8-K dated January 31, 1996)\*
- (iii) 1988 Long-Term Stock Incentive Plan (incorporated by reference to Exhibit 10(v) to Annual Report on Form 10-K for year ended December 31, 1988)\*
- (iv) Management Incentive Compensation Plan effective January 1, 1996 (incorporated by reference to Exhibit 10(iv) to Annual Report on Form 10-K for year ended December 30, 1995)\*
- (v) Deferred Compensation Plan for Participants in Stanley's Management Incentive Plan effective January 1, 1996 (incorporated by reference to Exhibit 10(v) to Annual Report on Form 10-K for year ended December 30, 1995)\*
- (vi) Restated Supplemental Retirement and Savings Plan for Salaried Employees of The Stanley Works effective as of January 1, 1997\*
- (vii) Term Loan Agreement dated as of May 13, 1988 between the Savings and Retirement Trust for Salaried Employees and Wachovia Bank and Trust Company N.A. and related Guaranty dated as of May 13, 1988 from The Stanley Works to Wachovia Bank and Trust Company, N.A. (incorporated by reference to Exhibit 10(x) to Annual Report on Form 10-K for year ended December 31, 1988)
- (viii) Loan and Guarantee Agreement dated as of June 6, 1989 among The Stanley Works Savings Trust for Hourly Paid Employees, The Stanley Works and Wachovia Bank and Trust Company, N.A., Massachusetts Mutual Life Insurance Company and The Lincoln National Life Insurance Company (incorporated by reference to Exhibit 10(i) to Quarterly Report on Form 10-Q for quarter ended July 1, 1989)
  - (a) First Amendment to Loan and Guarantee Agreement dated as of February \_\_, 1993 (incorporated by reference to Exhibit 10(viii) (a) to Annual Report on Form 10-K for year ended December 31, 1994)

\* Management contract or compensation plan or arrangement

- (ix) Loan and Guarantee Agreement dated as of June 6, 1989 among The Stanley Works Savings and Retirement Trust, The Stanley Works and Wachovia Bank and Trust Company, N.A., Massachusetts Mutual Life Insurance Company, The Lincoln National Life Insurance Company, First Penn-Pacific Life Insurance Company, Security-Connecticut Life Insurance Company- Universal Life, Lincoln National Life Reinsurance Company and American States Life Insurance Company-Universal Life (incorporated by reference to Exhibit (10) (ii) to Quarterly Report on Form 10-Q for quarter ended July 1, 1989)
- (a) First Amendment to Loan and Guarantee Agreement dated as of February \_\_, 1993 (incorporated by reference to Exhibit 10(ix) (a) to Annual Report on Form 10-K for year ended December 31, 1994)
- (x) Assignment and Assumption Agreement and Second Amendment to Loan and Guarantee Agreements, dated as of September 30, 1994, among The Stanley Works Savings Trust for Hourly Paid Employees, The Stanley Works Savings and Retirement Trust, The Stanley Works and the Financial Institutions named in Schedules I and II thereto (incorporated by reference to Exhibit 10(x) to Annual Report on Form 10-K for year ended December 31, 1994)
- (xi) Receivables Purchase Agreement dated as of December 1, 1993, among THE STANLEY WORKS, MAC TOOLS, INC., STANLEY BOSTITCH, INC., the PURCHASERS listed on the signature pages thereof, and WACHOVIA BANK OF GEORGIA, NATIONAL ASSOCIATION, as Agent (incorporated by reference to Exhibit (10) (xii) to Annual Report on Form 10-K for year ended January 1, 1994)
- (a) First Amendment to Receivables Purchase Agreement, dated as of December 20, 1995, among The Stanley Works, Stanley Mechanics Tools, Inc. (formerly known as Mac Tools, Inc.), Stanley-Bostitch, Inc. and the Purchasers listed on the signature pages thereof and Wachovia Bank of Georgia, N.A. as Agent (incorporated by reference to Exhibit 10(xi) (a) to Annual Report on Form 10-K for year ended December 30, 1995)
- (b) Second Amendment to Receivables Purchase Agreement, dated as of April 24, 1996, among The Stanley Works, Stanley Mechanics Tools, Inc. (formerly known as Mac Tools, Inc.), Stanley-Bostitch, Inc. and the Purchasers listed on the signature pages thereof and Wachovia Bank of Georgia, N.A. as Agent

- (xii) (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 Connecticut National Bank (incorporated by reference to Exhibit (10) (xvii) (a) to Annual Report on Form 10-K for year ended December 29, 1990)
- (b) The Stanley Works Employees' Benefit Trust Agreement dated December 27, 1989 and amended as of January 1, 1991 by and between The Stanley Works and Connecticut National Bank (incorporated by reference to Exhibit (10) (xvii) (b) to Annual Report on Form 10-K for year ended December 29, 1990)
- (xiii) Restated and Amended 1990 Stock Option Plan
- (xiv) Term Note, dated as of June 7, 1991, by State Street Bank and Trust Company, as Trustee for the Savings Plan for Salaried Employees of The Stanley Works, to Stanley Works Funding Corporation (incorporated by reference to Exhibit (10) (xxi) to Current Report on Form 8-K dated June 7, 1991)
- (xv) Term Note, dated as of June 7, 1991, by State Street Bank and Trust Company, as Trustee for the Savings Plan for Hourly Paid Employees of The Stanley Works, to Stanley Works Funding Corporation (incorporated by reference to Exhibit (10) (xxii) to Current Report on Form 8-K dated June 7, 1991)
- (xvi) Master Leasing Agreement, dated September 1, 1992 between BLC Corporation and The Stanley Works (incorporated by reference to Exhibit (10) (i) to Quarterly Report on Form 10-Q for quarter ended September 26, 1992)
- (xvii) The Stanley Works Stock Option Plan for Non-employee Directors (incorporated by reference to Exhibit 10 (xvii) to the Annual Report on Form 10-K for the year ended December 31, 1994)
- (xviii) Employment Agreement effective December 27, 1996 between The Stanley Works and John M. Trani (incorporated by reference to Exhibit 10 (i) to Current Report on Form 8-K dated January 2, 1997)\*

\* Management contract or compensation plan or arrangement

- (xix) Employment Agreement effective December 31, 1996 between The Stanley Works and Richard H. Ayers (incorporated by reference to Exhibit 10(ii) to Current Report on Form 8-K dated January 2, 1997)\*
- (11) Statement re computation of per share earnings
- (12) Statement re computation of ratio of earnings to fixed charges
- (13) Annual Report to shareholders for year ended December 28, 1996
- (21) Subsidiaries of Registrant
- (23) Consents of Independent Auditors (at pages F-2 and F-3)
- (27) Financial Data Schedule
- (27) (i) Restated Interim 1996 Financial Data Schedule
- (27) (ii) Restated 1995 and 1994 Financial Data Schedule
- (99) (i) Financial Statements and report of independent auditors for the year ended December 31, 1996, of The Stanley Works 401(k) Savings Plan
- (ii) 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 Quarterly Report on Form 10-Q for quarter ended September 28, 1991)

\* Management contract or compensation plan or arrangement

THE STANLEY WORKS

BYLAWS

ARTICLE I

SHAREHOLDERS' MEETINGS

1. ANNUAL MEETING. The Annual Meeting of the shareholders shall be held at such time in the month of February, March or April in each year and at such place within or without the State of Connecticut as the Board of Directors may determine. Notice thereof shall be mailed to each shareholder to his or her last known post office address not less than twenty-five days nor more than fifty days before such Meeting.
2. SPECIAL MEETINGS. Special Meetings of the shareholders shall be called by the Chairman, or the President or Secretary, or by the Chairman, or the President or Secretary upon the written request of the holders of not less than 35% of the voting power of all shares entitled to vote on any issue proposed to be considered at such Meeting by mailing a notice thereof to each shareholder to his or her last known post office address not less than twenty-five days nor more than fifty days before such Meeting.
3. QUORUM. At any Meeting of shareholders the holders of not less than a majority of the shares outstanding and entitled to vote present in person or by proxy shall constitute a quorum. The Directors may establish a record date for voting or other purposes in accordance with law.
4. BUSINESS TO BE CONDUCTED AT ANNUAL MEETING. No business may be transacted at an Annual Meeting of shareholders (including any adjournment thereof), other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the Annual Meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the Annual Meeting by any shareholder (i) who is a shareholder of record on the date of the giving of the notice provided for in this Section 4 and on the record date for the determination of shareholders entitled to vote at such Annual Meeting and (ii) who complies with the notice procedures set forth in this Section 4.

December 18, 1996

In addition to any other applicable requirements, for business to be properly brought before an Annual Meeting by a shareholder, such shareholder must have given timely notice thereof in proper written form to the Secretary.

To be timely, a shareholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the anniversary of the date on which the immediately preceding Annual Meeting of shareholders was convened; provided, however, that in the event that the Annual Meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the Annual Meeting was mailed or such public disclosure of the date of the Annual Meeting was made, whichever first occurs.

To be in proper written form, a shareholder's notice to the Secretary must set forth as to each matter such shareholder proposes to bring before the Annual Meeting (i) a brief description of the business desired to be brought before the Annual Meeting and the reasons for conducting such business at the Annual Meeting, (ii) the name and record address of such shareholder, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such shareholder, (iv) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business and (v) a representation that such shareholder intends to appear in person or by proxy at the Annual Meeting to bring such business before the meeting.

No business shall be conducted at the Annual Meeting of shareholders except business brought before the Annual Meeting in accordance with the procedures set forth in this Section 4, provided, however, that, once business has been properly brought before the Annual Meeting in accordance with such procedures, nothing in this Section 4 shall be deemed to preclude discussion by any shareholder of any such business. If the Chairman of an Annual Meeting determines that business was not properly brought before the Annual Meeting in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

ARTICLE II

NOMINATIONS OF DIRECTOR CANDIDATES

1. ELIGIBILITY TO MAKE NOMINATIONS. Nominations of candidates for election as directors of the Corporation at any meeting of shareholders called for election of directors (an "Election Meeting") may be made by the Board of Directors or by any shareholder entitled to vote at such Election Meeting.
2. PROCEDURE FOR NOMINATIONS BY THE BOARD OF DIRECTORS. Nominations made by the Board of Directors shall be made at a meeting of the Board of Directors, or by written consent of directors in lieu of a meeting, not less than 30 days prior to the date of the Election Meeting, and such nominations shall be reflected in the minute books for the Corporation as of the date made. At the request of the Secretary of the Corporation each proposed nominee shall provide the Corporation with such information concerning himself or herself as is required, under the rules of the Securities and Exchange Commission, to be included in the Corporation's proxy statement soliciting proxies for his or her election as a director.
3. PROCEDURE FOR NOMINATIONS BY SHAREHOLDERS. Not less than 30 days prior to the date of the Election Meeting, any shareholder who intends to make a nomination at the Election Meeting shall deliver a notice to the Secretary of the Corporation setting forth (i) the name, age, business address and residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee, (iii) the number of shares of capital stock of the Corporation which are beneficially owned by each such nominee and (iv) such other information concerning each such nominee as would be required, under the rules of the Securities and Exchange Commission, in a proxy statement soliciting proxies for the election of such nominees.
4. SUBSTITUTION OF NOMINEES. In the event that a person is validly designated as a nominee in accordance with section 2 or 3 hereof and shall thereafter become unable or unwilling to stand for election to the Board of Directors, a substitute nominee may be designated as follows:
  - (a) by those named as proxies in proxies solicited on behalf of the Board of Directors if the person was designated as nominee in accordance with section 2 hereof
  - (b) by the shareholder who proposed such nominee if the person was designated as a nominee in accordance with section 3 hereof.

December 18, 1996

5. DETERMINATION OF COMPLIANCE WITH PROCEDURE.  
If the chairman of the Election Meeting determines that a nomination was not in accordance with the foregoing procedures, such nomination shall be void.

ARTICLE III

DIRECTORS AND COMMITTEES

1. DIRECTORS. The business, property and affairs of this Corporation shall be managed by or under the direction of the Board of Directors consisting of not less than nine nor more than eighteen Directors, the exact number to be determined by the Board of Directors from time to time. All Directors shall be shareholders of record. The Directors shall be divided into three classes designated Class I, Class II and Class III. Such classes shall be as nearly equal in number as the total number of Directors constituting the entire Board of Directors permits. One class shall be chosen annually at the Annual Meeting of shareholders and the members of such class shall hold office until their successors be elected and qualified. The Directors may increase the prescribed number of Directors by the concurring vote of a majority of the prescribed number of Directors. Any increase or decrease in the prescribed number of Directors shall be so apportioned among the classes of Directors as to make all the classes as nearly equal in number as possible. No reduction of the number of Directors shall remove or shorten the term of any Director in office. A majority of the number of Directors prescribed shall constitute a quorum for the transaction of business.

2. MEETINGS. The Chairman or the President or any Vice Chairman may and upon written application of any three Directors shall call a meeting of the Board of Directors to be held at such time and place as may be determined by the person calling said meeting and shall cause notice thereof to be given. Unless waived in writing, three days verbal or written (mail) notice shall be required provided, however, that if in the judgment of any two officers an emergency exists, a meeting may be called forthwith by telephone or telegram or verbal notice and such notice shall be deemed sufficient notice notwithstanding that some of the Directors may not have actual notice.

The Annual Meeting of the Directors for the election of officers shall be held without notice, immediately after the Annual Meeting of shareholders. Regular meetings of the Directors shall be held at least on a quarterly basis.

3. WRITTEN CONSENT. If all the Directors, or all members of a committee of the Board of Directors, as the case may be, severally or collectively consent in writing to any action taken or to be taken by the Corporation, and the number of such Directors or members

December 18, 1996

constitutes a quorum for such action, such action shall be a valid corporate action as though it had been authorized at a meeting of the Board of Directors or committee, as the case may be. The Secretary shall file such consents with the minutes of the Board of Directors or of the committee, as the case may be.

4. PARTICIPATION BY TELEPHONE. A Director may participate in a meeting of the Board of Directors or of a committee by any means of communication by which all Directors participating in the meeting may simultaneously hear one another during the meeting, and participation in a meeting pursuant to this subsection shall constitute presence in person at such meeting.

5. VACANCIES. In case any vacancy or vacancies shall exist in the Board of Directors at any time the remaining members of the Board by majority action may fill the vacancy or vacancies. The term of a Director elected to fill a vacancy expires at the next shareholders meeting at which Directors are elected.

6. COMMITTEES. The Board of Directors may from time to time appoint from its membership such committees as it may deem necessary or desirable for the best interests of the Corporation and may delegate to any committee all needful authority to the extent permitted by law.

Each committee shall fix its own rules as to procedure and calling of meetings. It shall appoint a Secretary, who need not be a member of the committee. Such Secretary shall call meetings of the committee on the request of the Chair of the committee or any two members and shall keep permanent record of all of its proceedings. A majority of the members of any committee shall constitute a quorum.

7. EXECUTIVE COMMITTEE. The Directors shall appoint an Executive Committee consisting of the Chairman, if any, the President and at least three other Directors, but in no event shall the Committee consist of less than five members. The Board of Directors may at any time decrease (subject to the provisions of the preceding paragraph) or increase the size of said Committee, may change the membership thereof and may fill vacancies therein.

During intervals between meetings of the Board of Directors, the Executive Committee shall possess and may exercise all the powers of the Board of Directors in the management of the business and affairs of the Corporation, but the Committee shall have no power to declare dividends or do other things specially reserved by law to the Directors. The Executive Committee shall have power to appoint such subcommittees as it may deem necessary to report and make recommendations to the Executive Committee. Any action taken by the Executive Committee shall be subject to change, alteration and

December 18, 1996

revision by the Board of Directors, provided that no rights or acts of others shall be affected by any such alteration or revision.

8. FINANCE AND PENSION COMMITTEE. A Finance and Pension Committee consisting of at least five Directors shall be appointed by the Board of Directors. The Committee shall advise and assist the Chief Financial Officer and the Treasurer in major matters concerning the finances of the Corporation and in matters of major policy decisions in the purchase and sale of securities. In performance of this the Committee shall regularly review the financial condition of the Corporation so as to counsel these officers and the Board on the total financial resources, strength and capabilities of the Corporation. In this connection, the Committee shall analyze and advise on fundamental corporate changes in capital structure (both debt and equity); review the capital structure of the Corporation and make recommendations with respect to management proposals concerning financing, purchases of treasury stock, investments, and dividend actions; review periodically the Corporation's risk management program and its adequacy to safeguard the Corporation against extraordinary liabilities or losses; and advise and assist in matters such as short-term investments, credit liabilities, financings, and hedges of foreign currency exposures.

The Committee shall administer the pension plans of the Corporation and its subsidiaries. The Committee shall assume the functions of the Corporation as "Plan Administrator" and "Named Fiduciary" under the Corporation's pension plans and pension trust agreements in the United States as those terms are defined in the Employee Retirement Income Security Act of 1974 as amended. The Committee shall be responsible for setting (subject to the approval of the Board of Directors) the retirement policies of the Corporation and its subsidiaries; for amending pension plans, savings and retirement plans, stock ownership plans or any similar plans or related trust agreements; and for approving actuarial assumptions and investment policies for the Corporation's pension plans. It shall report at least annually to the Board of Directors. The Committee may delegate any or all of these functions to such employees as it, in its judgment, deems appropriate.

Specifically, the Committee shall approve retaining or terminating the services of actuaries, lawyers, accountants or other professionals for the plans; shall approve annually the amount of the contributions to be made by the Corporation to the respective plans; and shall approve appointing and terminating trustees and investment managers and determine the allocation of the assets of the plans among one or more trustees or investment managers.

9. AUDIT COMMITTEE. An Audit Committee consisting of at least three Directors, none of whom shall be officers or employees of the Corporation or any of its subsidiaries, shall be

December 18, 1996

appointed by the Board of Directors. The Committee shall nominate the public accounting firm to conduct the annual audit and shall review fees for audit and tax work and approve in advance management consulting services which management may propose be provided by the Corporation's public accounting firm. With respect to such management consulting services, consideration shall be given to the effect that performing such services might have on audit independence. The Committee shall review with the auditors the scope and timing of their audit examination, with particular emphasis on those areas which either the Committee or the auditors believe warrant special attention. The Committee is authorized to have the auditors perform such supplemental reviews or audits as it deems desirable.

The Committee shall review the audited financial statements and the auditors' report thereon, including consideration of all significant disclosures required by the Securities and Exchange Commission, and any proposed changes in accounting principles or practices which have a significant impact on amounts reported for the current year (or will have in the future) and shall discuss with the auditors any significant problems encountered in the completion of the audit. The Committee shall review with management and the independent auditors the qualitative judgments about the appropriateness, not just the acceptability, of accounting principles and financial disclosure practices used or proposed to be adopted including the degree of aggressiveness or conservatism of the accounting principles and underlying estimates including significant liabilities and reserves associated with those liabilities. The Committee shall review the auditors' recommendations regarding internal control and their comments, if any, relating to conflicts of interest, questionable payments or other similar matters, and monitor with management the consideration given and/or the corrective action taken with respect to these comments and recommendations. The Committee shall review management's evaluation of the Corporation's system of internal accounting controls, including the independence, scope and results of the internal audit function, and monitor the effectiveness of the system with management, independent auditors and internal audit management. The Committee shall review with management and independent auditors and consider the impact on the Corporation of significant recent or pending statements by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Auditing Standards Executive Committee of the American Institute of Certified Public Accountants and similar authoritative bodies. The Committee shall review environmental liabilities and the reserves associated with those liabilities.

In carrying out all of the foregoing responsibilities, the Committee shall have direct and open access to Management, public accountants and internal audit management (each of which shall have direct and open access to the Committee); shall submit Committee reports, recommendations, and minutes of meetings to the Board of Directors; and shall

December 18, 1996

provide opportunities to the other members of the Board to have full and open access to the independent auditors.

10. COMPENSATION AND ORGANIZATION COMMITTEE. A Compensation and Organization Committee consisting of at least three Directors, none of whom shall be employees of the Corporation or any of its subsidiaries shall be appointed by the Board of Directors. The Committee shall review and approve major organization and compensation structure changes as recommended by Management. The Committee shall approve the performance and determine the compensation of the officers of the Corporation other than the Chairman, Vice Chairman and President, and of other senior executives whose base salary exceeds an amount fixed by the Board of Directors and shall report its actions annually to the Board of Directors; shall appraise the performance and recommend to the Board of Directors the compensation of the Chairman, the Vice Chairman and President; shall administer all of the Corporation's senior executive compensation plans; and shall assure that there is a succession plan in place.

11. COMMITTEE ON BOARD AFFAIRS AND PUBLIC POLICY. A Committee on Board Affairs and Public Policy consisting of at least three directors, none of whom shall be employees of the Corporation or any of its subsidiaries shall be appointed by the Board of Directors. The Committee shall consider and make recommendations to the Board of Directors as to Board of Director membership with respect to names generated by the Committee itself or submitted by shareholders. The Committee shall consider and make recommendations to the Board of Directors with respect to Board of Director committee membership and chair assignments. (These will normally be acted upon by the Board of Directors at its Annual Meeting held immediately after the Annual Meeting of shareholders.) The Committee shall consider and make recommendations to the Board of Directors with respect to the number of members of the Board of Directors. (The Charter and Bylaws provide for not less than nine nor more than eighteen as may be determined by the Board). Annually, the Committee shall consider and recommend to the Board of Directors the persons whom the Committee proposes that the Board of Directors nominate for election as directors at the Annual Meeting of shareholders. The Committee shall consider and make recommendations to the Board of Directors with respect to remuneration of directors.

The Committee shall provide guidance to the Management on major issues in areas of corporate social responsibility, including environmental issues and public affairs. The Committee shall review and approve policy guidelines to be used by Management in making charitable contributions and shall annually review all charitable contributions made by the Corporation during the previous twelve months and recommend to the Board the level of contributions to be set for the ensuing year.

December 18, 1996

12. In the absence of any one or more members from a meeting of any of the committees provided for in these Bylaws, the Chairman, or the President, may in his or her discretion invite any member or members of the Board (otherwise qualified to serve) to attend such meeting. Temporary members thus appointed to attend for absentees shall act as regular members and shall have the right to vote.
13. POWERS OF ALL COMMITTEES. The powers of all committees are at all times subject to the control of the Directors, and any member of any committee may be removed at any time at the pleasure of the Board.

#### ARTICLE IV

##### OFFICERS

1. ELECTION OF OFFICERS. The Board of Directors shall have power to elect from its own members or otherwise a Chairman, a President, one or more Vice Chairmen and Vice Presidents, a Secretary, a Treasurer, one or more Assistant Treasurers and Assistant Secretaries, and such other officers, agents and employees as it may deem expedient, and to define the duties and authority of all officers, employees and agents and to delegate to them such lawful powers as may be deemed advisable.  
  
The officers shall respectively perform all acts and duties required of such officers by law, by the Charter and Bylaws of this Corporation, or by the Board of Directors.
2. CHAIRMAN OF THE BOARD. If the Directors have elected a Chairman, the Chairman shall preside at all meetings of the Board except that in the Chairman's absence the Directors present shall designate a person to preside. The Chairman shall have such additional duties as the Board of Directors or the Executive Committee may assign.
3. PRESIDENT. The President shall be elected by the Directors and shall have such duties as the Board of Directors or the Executive Committee may assign.
4. CHIEF EXECUTIVE OFFICER One of the officers shall be appointed Chief Executive Officer of the Corporation by the Board of Directors. Subject to the Board of Directors and the Executive Committee, the Chief Executive Officer shall have general supervision and control of the policies, business and affairs of the Corporation.
5. VICE CHAIRMEN. Each Vice Chairman shall have such powers and perform such duties as may be conferred upon him or her or determined by the Chief Executive Officer.

December 18, 1996

6. VICE PRESIDENTS. Each Vice President shall have such powers and perform such duties as may be conferred upon him or her or determined by the Chief Executive Officer.
7. TREASURER. The Treasurer shall have the oversight and control of the funds of the Corporation and shall have the power and authority to make and endorse notes, drafts and checks and other obligations necessary for the transaction of the business of the Corporation except as herein otherwise provided.
8. CONTROLLER. The Controller shall have the oversight and control of the accounting records of the Corporation and shall prepare such accounting reports and recommendations as shall be appropriate for the operation of the Corporation.
9. SECRETARY. It shall be the duty of the Secretary to make and keep records of the votes, doings and proceedings of all meetings of the shareholders and Board of Directors of the Corporation, and of its Committees, and to authenticate records of the Corporation.
10. ASSISTANT TREASURERS. The Assistant Treasurers shall have such duties as the Treasurer shall determine.
11. ASSISTANT SECRETARIES. The Assistant Secretaries shall have such duties as the Secretary shall determine.
12. POWERS OF ALL OFFICERS. The powers of all officers are at all times subject to the control of the Directors, and any officer may be removed at any time at the pleasure of the Board.

#### ARTICLE V

##### INDEMNIFICATION

To the extent properly permitted by law the Board of Directors shall provide for the indemnification and reimbursement of, and advances of expenses to, any person made a party to any action, suit or proceeding by reason of the fact that he or she, or a person whose legal representative or successor he or she is,

- (a) is or was a Director, officer, employee or agent of the Corporation, or
- (b) served at the Corporation's request as a director, officer, employee or agent of another corporation,

December 18, 1996

for expenses, including attorney's fees, and such amount of any judgment, money decree, fine, penalty or settlement for which he or she may have become liable as the Board of Directors deems reasonable, actually incurred by him or her in connection with the defense or reasonable settlement of any such action, suit or proceeding or any appeal therein, except in relation to matters as to which he or she, or such person whose legal representatives or successor he or she is, is finally adjudged in such action, suit or proceeding to be liable for negligence or misconduct in the performance of his or her duties.

This provision of indemnification shall be in addition to any other right or remedy which such person may have. The Corporation shall have the right to intervene in and defend all such actions, suits or proceedings brought against any such person.

#### ARTICLE VI

##### CORPORATE SEAL

The corporate seal shall be in the custody of the Secretary and either the Secretary or any other officer shall have the power to affix the same for the Corporation.

#### ARTICLE VII

##### STOCK CERTIFICATES

1. SIGNATURES. Certificates of stock shall be signed by the Chairman, the President or a Vice President and by the Secretary or the Treasurer (except that where any such certificate is signed by a transfer agent or transfer clerk and by the registrar, the signatures of any such Chairman, President, Vice President, Secretary or Treasurer may be facsimiles, engraved or printed) and shall be sealed with the seal of the corporation (or shall bear a facsimile of such seal).
2. LOST CERTIFICATES. No certificate for shares of stock in the Corporation shall be issued in place of any certificate alleged to have been lost, stolen or destroyed except upon production of such evidence of such loss, theft or destruction as the Board of Directors in its discretion may require and upon delivery to the Corporation of a bond of indemnity in form and, unless such requirement is waived by Resolution of the Board, with one or more sureties, satisfactory to the Board in at least double the value of the stock represented by said Certificate.

December 18, 1996

ARTICLE VIII

FISCAL YEAR

The Corporation's fiscal year shall close on the Saturday nearest December 31st of each year.

ARTICLE IX

INDEPENDENT AUDIT

The Board of Directors shall provide for a yearly independent audit, the form and scope of which shall be determined by the Board from time to time.

ARTICLE X

AMENDMENTS

The Board of Directors of the Corporation may adopt, amend or repeal the Bylaws of the Corporation, subject, however, to the power of the shareholders to adopt, amend or repeal the same, provided that any notice of a meeting of shareholders or of the Board of Directors at which Bylaws are to be adopted, amended or repealed, shall include notice of such proposed action.

ARTICLE XI

ACQUISITIONS OF STOCK

- (a) Except as set forth in subsection (b) hereof, the Corporation shall not acquire any of its voting equity securities (as defined below) at a price per share above the market price per share (as defined below) of such securities on the date of such acquisition from any person actually known by the Corporation to be the beneficial owner (as determined pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended, or any successor rule or regulation) of more than three percent of the Corporation's voting equity securities who has been the beneficial owner of the Corporation's voting equity securities for less than two years prior to the date of the Corporation's acquisition thereof, unless such

acquisition (i) has been approved by a vote of a majority of the shares entitled to vote, excluding shares owned by any beneficial owner any of whose shares are proposed to be acquired pursuant to the proposed acquisition that is the subject of such vote or (ii) is pursuant to an offer made on the same terms to all holders of securities of such class. The determination of the Board of Directors shall be conclusive in determining the price paid per share for acquired voting equity securities if the Corporation acquires such securities for consideration other than cash.

- (b) This provision shall not restrict the Corporation from:
- (i) acquiring shares in the open market in transactions in which there has been no prior arrangement with, or solicitation of (other than a solicitation publicly made to all holders), any selling holder of voting equity securities or in which all shareholders desiring to sell their shares have an equal chance to sell their shares;
  - (ii) offering to acquire shares of shareholders owning less than 100 shares of any class of voting equity securities;
  - (iii) acquiring shares pursuant to the terms of a stock option or similar plan that has been approved by a vote of a majority of the Corporation's common shares represented at a meeting of shareholders and entitled to vote thereon;
  - (iv) acquiring shares from, or on behalf of, any employee benefit plan maintained by the Corporation or any subsidiary or any trustee of, or fiduciary with respect to, any such plan when acting in such capacity; or
  - (v) acquiring shares pursuant to a statutory appraisal right or otherwise as required by law.
- (c) Market price per share on a particular day means the highest sale price on that day or during the period of five trading days immediately preceding that day of a share of such voting equity security on the Composite Tape for New York Stock Exchange-Listed Stocks, or if such voting equity security is not quoted on the Composite Tape on the New York Stock Exchange or listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such voting equity security is listed, or, if such voting equity security is not listed on any such exchange, the highest sales price or, if sales price is not reported, the highest closing bid quotation with respect to a share of such voting equity security on that day or during the period of five trading days immediately preceding that day on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such voting equity security as determined by a majority of the Board of Directors.
- (d) Voting equity securities of the Corporation means equity securities issued from time to time by the Corporation which by their terms are entitled to be voted

December 18, 1996

generally in the election of the directors of the Corporation.

- (e) The Board of Directors shall have the power to interpret the terms and provisions of, and make any determinations with respect to, this Article XI, which interpretations and determinations shall be conclusive.

Execution Counterpart

AMENDED AND RESTATED  
FACILITY A (364 DAY) CREDIT AGREEMENT

dated as of October 23, 1996

between

THE STANLEY WORKS

as Borrower

and

THE INITIAL LENDERS NAMED HEREIN

as Initial Lenders

and

CITIBANK, N.A.

as Agent

TABLE OF CONTENTS

Page

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS..... 1  
SECTION 1.01. Certain Defined Terms..... 1  
SECTION 1.02. Computation of Time Periods..... 11  
SECTION 1.03. Accounting Terms..... 11

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES..... 12  
SECTION 2.01. The Commitment..... 12  
SECTION 2.02. Making the Committed Advances..... 15  
SECTION 2.03. Fees..... 18  
SECTION 2.04. Continuation and Conversion..... 18  
SECTION 2.05. Interest on Advances..... 19  
SECTION 2.06. Additional Interest on Eurodollar Rate Advances..... 20  
SECTION 2.07. Repayment and Prepayment of Advances..... 20  
SECTION 2.08. Increased Costs..... 21  
SECTION 2.09. Payments and Computations..... 22  
SECTION 2.10. Taxes..... 23  
SECTION 2.11. Evidence of Debt..... 24  
SECTION 2.12. Use of Proceeds of Advances..... 24  
SECTION 2.13. Uncommitted Advances..... 24

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING..... 27  
SECTION 3.01. Condition Precedent to Effectiveness of Sections 2.01 and  
2.13..... 27  
SECTION 3.02. Conditions Precedent to Each Advance..... 27

ARTICLE IV

REPRESENTATIONS AND WARRANTIES..... 28  
SECTION 4.01. Representations and Warranties of the Borrower..... 28

ARTICLE V

COVENANTS OF THE BORROWER..... 30  
SECTION 5.01. Affirmative Covenants..... 30

SECTION 5.02. Negative Covenants..... 33

ARTICLE VI

EVENTS OF DEFAULT..... 35  
SECTION 6.01. Events of Default..... 35

ARTICLE VII

THE AGENT..... 37  
SECTION 7.01. Authorization and Action..... 37  
SECTION 7.02. Agent's Reliance, Etc..... 37  
SECTION 7.03. Citibank and Affiliates..... 38  
SECTION 7.04. Lender Credit Decision..... 38  
SECTION 7.05. Indemnification..... 38  
SECTION 7.06. Successor Agent..... 39

ARTICLE VIII

MISCELLANEOUS..... 39  
SECTION 8.01. Amendments, Etc..... 39  
SECTION 8.02. Notices, etc..... 40  
SECTION 8.03. No Waiver; Remedies..... 40  
SECTION 8.04. Costs and Expenses; Breakage Indemnification..... 40  
SECTION 8.05. Sharing of Payments, Etc..... 41  
SECTION 8.06. Binding Effect..... 41  
SECTION 8.07. Assignments and Participations..... 41  
SECTION 8.08. Limitation on Assignments and Participations..... 44  
SECTION 8.09. Withholding..... 45  
SECTION 8.10. Mitigation..... 45  
SECTION 8.11. Governing Law; Waiver of Jury Trial..... 46  
SECTION 8.12. Execution in Counterparts..... 46  
SECTION 8.13. Submission to Jurisdiction..... 46

SCHEDULE I ADDRESSES AND APPLICABLE LENDING OFFICES

EXHIBIT A FORM OF PROMISSORY NOTE (COMMITTED ADVANCES)  
EXHIBIT B-1 FORM OF RATE REQUEST  
EXHIBIT B-2 FORM OF NOTICE OF BORROWING  
EXHIBIT B-3 FORM OF NOTICE OF INCREASE  
EXHIBIT B-4 FORM OF NOTICE OF EXTENSION  
EXHIBIT C FORM OF NOTICE OF CONVERSION OR CONTINUATION  
EXHIBIT D FORM OF PROMISSORY NOTE (UNCOMMITTED ADVANCES)  
EXHIBIT E FORM OF QUOTE REQUEST

|           |                                   |
|-----------|-----------------------------------|
| EXHIBIT F | FORM OF QUOTE                     |
| EXHIBIT G | FORM OF ACCEPTANCE                |
| EXHIBIT H | FORM OF OPINION                   |
| EXHIBIT I | FORM OF ASSIGNMENT AND ACCEPTANCE |
| EXHIBIT J | FORM OF NEW COMMITMENT ACCEPTANCE |

FACILITY A (364 DAY) CREDIT AGREEMENT

This Facility A (364 Day) Credit Agreement (as amended, supplemented or otherwise modified from time to time, the "Agreement") is made as of this 23rd day of October, 1996 between THE STANLEY WORKS, a Connecticut corporation (the "Borrower"), the banks, financial institutions and other institutional lenders (the "Initial Lenders") listed on the signature pages hereof, and CITIBANK, N.A. ("Citibank"), as agent (the "Agent") for the Lenders (as hereinafter defined).

W I T N E S S E T H

WHEREAS, the Borrower, the Initial Lenders and the Agent are parties to a Credit Agreement dated as of October 25, 1995 (the "Existing Credit Agreement") and propose to amend and restate the Existing Credit Agreement as hereinafter provided.

NOW THEREFORE, in consideration of the foregoing and the mutual promises and covenants contained herein the Borrower, the Agent and the Initial Lenders hereby agree that effective on the Effective Date the Existing Credit Agreement shall be amended and restated in its entirety to read as hereinafter set forth:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Acquiring Person" means any person (other than the ESOP) who is or becomes the beneficial owner, directly or indirectly, of 10% or more of the Borrower's outstanding common stock.

"Advance" means a Committed Advance or an Uncommitted Advance.

"Agent's Account" means the account of the Agent maintained by the Agent at Citibank with its office at 7th Floor, Zone 1, One Court Square, Long Island City, New York, 11120, Account No. 36852248, Attention: Mr. John Makrinos.

"Applicable Eurodollar Margin" means, with respect to any Interest Period for each Eurodollar Rate Advance, (i) .2000% if on the date such Eurodollar Rate Advance is made the Borrower's outstanding Long-Term Indebtedness is rated BBB+ or higher by Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. ("Standard & Poor's") and Baal or higher by Moody's Investors Service, Inc. ("Moody's"), (ii) .2300% if on such date

clause (i) is inapplicable and the Borrower's outstanding Long-Term Indebtedness is rated BBB or higher by Standard & Poor's and Baa2 or higher by Moody's, and (iii) .2500% if on such date clauses (i) and (ii) are inapplicable (including if such Long-Term Indebtedness is no longer rated by either agency); provided, however, that if the maturity of any Eurodollar Rate Advance has been extended pursuant to Section 2.07(c), the Applicable Eurodollar Margin shall mean, with respect to any Interest Period for each Eurodollar Rate Advance from and after the Termination Date, (i) .2500% if on the Termination Date or on the date such Eurodollar Rate Advance is made the Borrower's outstanding Long-Term Indebtedness is rated BBB+ or higher by Standard & Poor's and Baa1 or higher by Moody's, (ii) .3000% if on such date clause (i) is inapplicable and the Borrower's outstanding Long-Term Indebtedness is rated BBB or higher by Standard & Poor's and Baa2 or higher by Moody's, and (iii) .3500% if on such date clauses (i) and (ii) are inapplicable (including if such Long-Term Indebtedness is no longer rated by either agency).

"Applicable Facility Fee Rate" means as of any date of payment of the fee required by Section 2.03 (i) a rate per annum equal to .0500% if on such date the Borrower's outstanding Long-Term Indebtedness is rated BBB+ or higher by Standard & Poor's and Baa1 or higher by Moody's, (ii) a rate per annum equal to .0700% if on such date clause (i) is inapplicable and the Borrower's outstanding Long-Term Indebtedness is rated BBB or higher by Standard & Poor's and Baa2 or higher by Moody's, and (iii) .1000% if on such date clauses (i) and (ii) are inapplicable (including if such Long-Term Indebtedness is no longer rated by either agency).

"Applicable Lending Office" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance and such Lender's Eurodollar Lending Office in the case of a Eurodollar Rate Advance and, in the case of an Uncommitted Advance, the office of such Lender notified by such Lender to the Agent and the Borrower as its Applicable Lending Office with respect to such Uncommitted Advance.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit I hereto.

"Base Rate" means a fluctuating interest rate per annum as shall be in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by the Reference Bank in New York, New York, from time to time, as its base rate;

(b) 1/2 of one percent per annum above the secondary market morning offering rate in the United States for three-month certificates of deposit of major United States money market banks, determined by the Reference Bank, such rate being determined by the Reference Bank on the basis of quotations for such rates received by the Reference Bank from three New York certificate of deposit dealers of recognized

standing selected by the Reference Bank adjusted to the nearest 1/4 of one percent or, if there is no nearest 1/4 of one percent, to the next higher 1/4 of one percent; or

(c) 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Advance" means a Committed Advance that bears interest as provided in Section 2.05(a).

"Borrower" has the meaning specified in the first paragraph of this Agreement.

"Borrowing" means a Committed Borrowing or an Uncommitted Borrowing.

"Business Day" means a day of the year on which banks are not required or authorized to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings in Dollars are carried on in the London interbank market.

"Capital Lease" means any lease of property, real or personal, the obligations under which are capitalized on the consolidated balance sheet of the Borrower and its Subsidiaries.

"Change of Control" means, with respect to the Borrower, the occurrence of any event, act or condition which results in either (i) any Person other than the ESOP becoming the beneficial owner, directly or indirectly, of 30% or more of the outstanding common stock of the Borrower or (ii) individuals who constitute the Continuing Directors ceasing for any reason to constitute at least the majority of the Board of Directors of the Borrower.

"Citibank" has the meaning specified in the first paragraph of this Agreement.

"Commitment" means, with respect to any Lender, the amount specified opposite such Lender's name on the signature pages hereof or, if such Lender has entered into any Assignment and Acceptance or New Commitment Acceptance, set forth for such Lender in the Register maintained by the Agent pursuant to Section 8.07(d), as such amount may be reduced pursuant to Section 2.01(b) or increased pursuant to Section 2.01(c).

"Committed Advance" means an advance by a Lender to the Borrower as part of a Committed Borrowing and refers to a Base Rate Advance or a Eurodollar Rate Advance, each of which shall be a "Type" of Committed Advance.

"Committed Borrowing" means a borrowing consisting of simultaneous Committed Advances of the same Type made by each of the Lenders pursuant to Section 2.01.

"Committed Note" means a promissory note of the Borrower payable to the order of any Lender, in substantially the form of Exhibit A hereto, evidencing the aggregate

indebtedness of the Borrower to such Lender resulting from the Committed Advances made by such Lender.

"Consolidated Cash Expenditures" has the meaning provided in Section 5.01(f).

"Consolidated Cash Flow" has the meaning provided in Section 5.01(f).

"Consolidated Net Tangible Assets" means the excess over current liabilities of all assets properly appearing on a consolidated balance sheet of the Borrower and its Subsidiaries after deducting goodwill, trademarks, patents, other like intangibles and the minority interests of others in Subsidiaries.

"Consolidated Subsidiary" has the meaning provided in Section 5.01(f).

"Contingent Obligation" as to any Person means any obligation of such Person guaranteeing or intended to guarantee any Indebtedness, leases, dividends or other obligations ("primary obligations") of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of such Person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (x) for the purchase or payment of any such primary obligation or (y) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of such primary obligation against loss in respect thereof; provided, however, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith.

"Continuing Director" means any member of the Board of Directors of the Borrower who is not affiliated with an Acquiring Person and who is a member of the Board of Directors of the Borrower immediately prior to the time that the Acquiring Person became an Acquiring Person and any successor to a Continuing Director who is not affiliated with the Acquiring Person and is recommended to succeed a Continuing Director by a majority of Continuing Directors who are then members of the Board of Directors of the Borrower.

"Default" means an event which would constitute an Event of Default but for the giving of notice, the lapse of time or both.

"Dollars" and "\$" mean lawful money of the United States of America.

"Domestic Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Agent.

"Effective Date" has the meaning set forth in Section 3.01.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successors thereto, and the regulations promulgated and the rulings found thereunder.

"ERISA Controlled Group" means a group consisting of any ERISA Person and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control with such Person that, together with such Person, are treated as a single employer under regulations of the PBGC.

"ERISA Person" has the meaning set forth in Section 3(9) of ERISA for the term "person."

"ERISA Plan" means (i) any Plan that (x) is not a Multiemployer Plan and (y) has Unfunded Benefit Liabilities in excess of \$20,000,000 and (ii) any Plan that is a Multiemployer Plan.

"ESOP" means The Stanley Works 401(k) Savings Plan or any successor plan.

"Eurocurrency Liabilities" has the meaning provided in Regulation D of the Federal Reserve Board, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office of such Lender is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Agent.

"Eurodollar Rate" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same Committed Borrowing, an interest rate per annum equal to the offered rate for deposits in Dollars as quoted by the British Banker's Association on Telerate page 3750 at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to the Reference Bank's Eurodollar Rate Advance comprising part of such Committed Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period.

"Eurodollar Rate Advance" means a Committed Advance that bears interest as provided in Section 2.05(b).

"Eurodollar Rate Reserve Percentage" for any Lender for any Eurodollar Rate Advances owing to such Lender means the reserve percentage applicable two Business Days before the first day of the applicable Interest Period under regulations issued from time to time by the Federal Reserve Board for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to the applicable Interest Period.

"Events of Default" has the meaning specified in Section 6.01.

"Federal Bankruptcy Code" means Title 11 of the United States Code entitled "Bankruptcy", as amended from time to time, or any successor thereto.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve Board arranged by Federal fund brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Reference Bank from three Federal funds brokers of recognized standing selected by the Reference Bank.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System as constituted from time to time.

"Fixed Rate" has the meaning set forth in Section 2.13(c) (ii) (C).

"Fixed Rate Advance" means an Advance which bears interest as provided in Section 2.05(d).

"Fixed Rate Auction" means a solicitation of Quotes setting forth Fixed Rates pursuant to Section 2.13.

"Floating Rate" means, for any Interest Period for a Floating Rate Advance, an interest rate per annum equal to the Base Rate in effect from time to time minus the Floating Rate Margin for such Advance and Interest Period.

"Floating Rate Advance" means an Advance which bears interest as provided in Section 2.05(c).

"Floating Rate Auction" means a solicitation of Quotes setting forth Floating Rate Margins based on the Base Rate pursuant to Section 2.13.

"Floating Rate Margin" has the meaning provided in Section 2.13(c) (ii) (B).

"GAAP" means United States generally accepted accounting principles as in effect from time to time.

"Indebtedness" of any Person means, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business of such Person), (ii) all indebtedness of such Person evidenced by a note, bond, debenture or similar instrument, (iii) the principal component of all Capital Lease obligations of such Person, (iv) the face amount of all letters of credit issued for the account of such Person and, without duplication, all unreimbursed amounts drawn thereunder, (v) all indebtedness of any other Person secured by any Lien on any property owned by such Person, whether or not such indebtedness has been assumed, (vi) all Contingent Obligations of such Person, and (vii) all payment obligations of such Person under any interest rate protection agreement (including, without limitation, any interest rate swaps, caps, floors, collars and similar agreements) and currency swaps and similar agreements.

"Initial Lenders" has the meaning specified in the first paragraph of this Agreement.

"Interest Period" means, for each Eurodollar Rate Advance comprising part of the same Committed Borrowing, each Floating Rate Advance comprising part of the same Uncommitted Borrowing and each Fixed Rate Advance comprising part of the same Uncommitted Borrowing, the period commencing on the date of such Advance or the date of the continuation of such Eurodollar Rate Advance or the date of the conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be (a) in the case of a Eurodollar Rate Advance, one, two, three or six months, (b) in the case of a Fixed Rate Advance, from 14 to 180 days, and (c) in the case of a Floating Rate Advance, from 30 to 180 days, in each case as the Borrower may select in the Notice of Borrowing, Quote Request or Notice of Conversion or Continuation for such Advance, as the case may be; provided that:

(i) the Borrower may not select any Interest Period which ends after the Termination Date or (if the maturity of the Committed Advances has been extended as provided in Section 2.07(c)) the Term Date;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; provided that if, in the case of any Interest Period with respect to any Eurodollar Rate Advance, such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day;

(iii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar

month at the end of such Interest Period) shall, subject to clause (iv) below, end on the last Business Day of a calendar month;

(iv) any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date and any Interest Period which would otherwise end after the Term Date shall end on the Term Date;

(v) if, upon the expiration of any Interest Period with respect to a Committed Borrowing consisting of Eurodollar Rate Advances, the Borrower has failed to elect a new Interest Period to be applicable to such Advances as provided above, the Borrower shall be deemed to have elected to convert such Advances into a Base Rate Advance effective as of the expiration date of such current Interest Period; and

(vi) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Committed Borrowing or for Fixed Rate Advances or Floating Rate Advances comprising part of the same Uncommitted Borrowing shall be of the same duration.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

"Lenders" means the Initial Lenders and each Person that shall become a party hereto pursuant to Section 8.07.

"Lien" shall mean any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preferential payment arrangement, priority or other security agreement of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same effect as any of the foregoing and the filing of any financing statement or similar instrument under the Uniform Commercial Code or comparable law of any jurisdiction, domestic or foreign.

"Long-Term Indebtedness" means the long-term Senior Unsecured Indebtedness of the Borrower.

"Margin Stock" has the meaning ascribed to such term in Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Material Adverse Effect" means a material adverse effect on the business, financial condition or results of operations of the Borrower and its Consolidated Subsidiaries taken as a whole.

"Multiemployer Plan" means a Plan which is a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA.

"Note" means a Committed Note or an Uncommitted Note.

"Notice of Borrowing" has the meaning provided in Section 2.02(b).

"Notice of Conversion or Continuation" has the meaning provided in Section 2.04.

"Notice of Extension" has the meaning provided in Section 2.07(c).

"Notice of Increase" has the meaning provided in Section 2.01(c).

"Other Taxes" has the meaning provided in Section 2.10(b).

"PBGC" means the Pension Benefit Guaranty Corporation established under ERISA, or any successor thereto.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

"Plan" means any employee benefit plan covered by Title IV of ERISA, the funding requirements of which:

(i) were the responsibility of the Borrower or a member of its ERISA Controlled Group at any time within the five years immediately preceding the date hereof,

(ii) are currently the responsibility of the Borrower or a member of its ERISA Controlled Group, or

(iii) hereafter become the responsibility of the Borrower or a member of its ERISA Controlled Group, including any such plans as may have been, or may hereafter be, terminated for whatever reason.

"Principal Property" means all real property and tangible personal property constituting a manufacturing plant owned by the Borrower or any of its Subsidiaries, exclusive of (i) motor vehicles, mobile materials handling equipment and other rolling stock, (ii) office furnishings and equipment, information and electronic data processing equipment, (iii) any property financed through obligations issued by a state, territory or possession of the United States, or any political subdivision or instrumentality of the foregoing, on which the interest cannot, in the opinion of tax counsel of recognized standing or in accordance with a ruling issued by the Internal Revenue Service, be included in gross income of the holder under Section 103(a)(1) of the Internal Revenue Code (or any successor to such provision) as in effect at the time of the issuance of such obligations, (iv) any real property held for development or sale, or (v) any property and equipment included therein without deduction of

any depreciation reserves which is less than 10% of Consolidated Net Tangible Assets or which the Board of Directors of the Borrower determines is not material to the operation of the business of the Borrower and its Subsidiaries taken as a whole.

"Principal Subsidiary" means any Subsidiary of the Borrower which has net sales which represent 15% or more of the consolidated net sales of the Borrower and its Consolidated Subsidiaries taken as a whole.

"Pro Rata Share" means, with respect to any Lender, the percentage corresponding to the fraction the numerator of which shall be the amount of the Commitment of such Lender and the denominator of which shall be the aggregate amount of the Commitments of all Lenders.

"Quote" means an offer by any Lender to make an advance under Section 2.13.

"Quote Request" has the meaning set forth in Section 2.13(b).

"Rate Notification" has the meaning set forth in Section 2.02(a).

"Rate Request" has the meaning set forth in Section 2.02(a).

"Reference Bank" means Citibank or, if Citibank is no longer the Agent, such Person (which shall be a Lender or the Agent) as shall be designated by the Borrower with the consent of the Required Lenders, which consent shall not be unreasonably withheld.

"Register" has the meaning specified in Section 8.07(d).

"Reportable Event" has the meaning set forth in Section 4043(b) of ERISA (other than a Reportable Event as to which the provision of 30 days notice to the PBGC is waived under applicable regulations).

"Required Lenders" means at any time Lenders representing in the aggregate at least 51% of the Commitments or, if the Commitments shall have terminated, Lenders representing in the aggregate at least 51% of the sum of the Advances owing to Lenders hereunder.

"Senior Unsecured Indebtedness" means Indebtedness that is not subordinated to any other Indebtedness and is not secured or supported by a guarantee, letter of credit or other form of credit enhancement.

"Subsidiary" of any Person means (i) any corporation 50% or more of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly

through Subsidiaries and (ii) any partnership, association, joint venture, limited liability company or other entity in which such Person, directly or indirectly through Subsidiaries, is either a general partner or has a 50% or more equity interest at the time.

"Taxes" has the meaning provided in Section 2.10.

"Term Date" means the date one year after the Termination Date; provided that if such date is not a Business Day the Term Date shall be the immediately preceding Business Day.

"Termination Date" means the earlier of (i) October 22, 1997 or (ii) the date of termination in whole of the Commitments pursuant to Section 2.01(b) or 6.01.

"Termination Event" means (i) a Reportable Event, or (ii) the initiation of any action by the Borrower, any member of the Borrower's ERISA Controlled Group or any ERISA Plan fiduciary to terminate an ERISA Plan or the treatment of an amendment to an ERISA Plan as a termination under ERISA, or (iii) the institution of proceedings by the PBGC under Section 4042 of ERISA to terminate an ERISA Plan or to appoint a trustee to administer any ERISA Plan.

"Type" has the meaning provided in the definitions of Committed Advance and Uncommitted Advance.

"Uncommitted Advance" means an advance by a Lender to the Borrower as part of an Uncommitted Borrowing resulting from the auction bidding procedure described in Section 2.13 and refers to a Floating Rate Advance or a Fixed Rate Advance, each of which shall be a "Type" of Uncommitted Advance.

"Uncommitted Note" means a promissory note of the Borrower payable to the order of any Lender, in substantially the form of Exhibit D hereto, evidencing the indebtedness of the Borrower to such Lender resulting from the Uncommitted Advances made by such Lender.

"Uncommitted Borrowing" means a borrowing consisting of simultaneous Uncommitted Advances from each of the Lenders whose offer to make one or more Uncommitted Advances as part of such borrowing has been accepted under the auction bidding procedure described in Section 2.13.

"Unfunded Benefit Liabilities" means with respect to any Plan at any time, the amount (if any) by which (i) the present value of all benefit liabilities under such Plan as defined in Section 4001(a)(16) of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan (on the basis of assumptions prescribed by the PBGC for the purpose of Section 4044 of ERISA).

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP.

## ARTICLE II

### AMOUNTS AND TERMS OF THE ADVANCES

#### SECTION 2.01. The Commitment. (a) The Committed Advances.

Each Lender agrees, on the terms and conditions hereinafter set forth, to make Committed Advances to the Borrower from time to time on any Business Day during the period from the date hereof until the Termination Date in an aggregate amount not to exceed at any time outstanding (i) such Lender's Commitment minus (ii) such Lender's Pro Rata Share of the aggregate principal amount of all Uncommitted Advances then outstanding. Within the limits of each Lender's Commitment, the Borrower may borrow, repay, prepay (as provided in Section 2.07) and reborrow such amount or any portion thereof. Each Committed Borrowing shall be in an aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof or, if less, the aggregate amount of the unused Commitments and shall consist of Committed Advances of the same Type made on the same day by the Lenders ratably according to their respective Commitments. Notwithstanding the foregoing restriction with respect to the minimum amount of each Committed Borrowing, the Borrower may borrow Committed Borrowings in an aggregate amount equal to the amount by which the aggregate amount of a proposed Uncommitted Borrowing requested by the Borrower exceeds the aggregate amount of Uncommitted Advances offered to be made by the Lenders and accepted by the Borrower in respect of such Uncommitted Borrowing, if such Uncommitted Borrowing is made on the same date as such Committed Borrowing.

(b) Termination and Reduction. The Borrower shall have the right, upon at least two Business Days' notice to the Agent, to terminate in whole or reduce each Lender's Pro Rata Share of the unused Commitments, provided that the aggregate amount of the Commitments of the Lenders shall not be reduced to an amount that is less than the aggregate principal amount of the Uncommitted Advances then outstanding. Each partial reduction of the Commitments shall be in the aggregate amount of at least \$10,000,000 or a larger whole multiple of \$1,000,000.

(c) Increase in Commitments. (1) The Borrower may propose to increase the aggregate amount of the Commitments by an aggregate amount of not less than \$25,000,000 or an integral multiple of \$1,000,000 in excess thereof (the "Proposed Aggregate Commitment Increase") in the manner set forth below, provided that:

(i) no Default shall have occurred and be continuing either as of the date of the Notice of Increase (as hereinafter defined) or as of the Increase Date (as hereinafter defined); and

(ii) after giving effect to any such increase, the aggregate amount of the Commitments shall not exceed \$850,000,000.

(2) The Borrower may request an increase in the aggregate amount of the Commitments by delivering to the Agent a notice in substantially the form of Exhibit B-3 (a "Notice of Increase"; the date of delivery thereof to the Agent being the "Increase Notice Date") specifying (1) the amount by which the Borrower proposes to increase the aggregate amount of the Commitments (the "Proposed Aggregate Commitment Increase"), (2) the proposed date (the "Increase Date") on which the Commitments would be so increased (which Increase Date may not be fewer than 30 nor more than 90 days after the Increase Notice Date) and (3) the New Lenders (as hereinafter defined), if any, to whom the Borrower proposes to offer (subject to clause (3) below) the opportunity to commit to all or a portion of the Proposed Aggregate Commitment Increase. The Agent shall in turn promptly notify each Lender of the Borrower's request by sending each Lender a copy of such notice.

(3) Promptly after the Increase Notice Date, the Agent shall notify each Lender of the opportunity to commit to all or any portion of the Proposed Aggregate Commitment Increase. Each Lender may in its sole discretion (but shall not be obligated to) offer to commit to all or a portion of the Proposed Aggregate Commitment Increase (such Lender's "Proposed Increased Commitment") by notifying the Agent (which shall give prompt notice thereof to the Borrower) before 11:00 A.M. (New York City time) on the date that is 10 days after the Increase Notice Date.

(4) If the aggregate Proposed Increased Commitments of all the Lenders shall be less than the Proposed Aggregate Commitment Increase, then (unless the Borrower otherwise requests) the Agent shall, on or prior to the date that is 15 days after the Increase Notice Date, notify each New Lender of the opportunity to so commit to all or any portion of the Proposed Aggregate Commitment Increase not committed to by Lenders pursuant to Section 2.01(c)(3). Each New Lender may irrevocably commit to all or a portion of such remainder (such New Lender's "Proposed New Commitment") by notifying the Agent (which shall give prompt notice thereof to the Borrower) no later than 11:00 A.M. (New York City time) on the date five days before the Increase Date; provided that

(i) the Proposed New Commitment of each New Lender shall be in an aggregate amount not less than \$20,000,000; and

(ii) each New Lender that submits a Proposed New Commitment shall promptly execute and deliver to the Agent (for its acceptance and

recording in the Register) a New Commitment Acceptance, together with a processing and recordation fee payable to the Agent in the amount of \$3,000.

(5) If the aggregate amount of Proposed New Commitments and Proposed Increased Commitments (such aggregate amount, the "Total Committed Increase") equals or exceeds \$25,000,000, then, subject to the conditions set forth in Section 2.01(c)(1):

(i) effective on and as of the Increase Date, the aggregate amount of the Commitments shall be increased by the Total Committed Increase and shall be allocated among the New Lenders and the Lenders as provided in clause (6) below; and

(ii) on the Increase Date, if any Advances are then outstanding, the Borrower shall borrow Advances from all or certain of the Lenders and/or prepay (subject to Section 8.04(b)) Advances of all or certain of the Lenders such that, after giving effect thereto, the Advances (including, without limitation, the Types and Interest Periods thereof) shall be held by the Lenders (including for such purposes New Lenders) ratably in accordance with their respective Commitments.

If the Total Committed Increase is less than \$25,000,000, then the aggregate amount of the Commitments shall not be changed pursuant to this Section 2.01(c).

(6) The Total Committed Increase shall be allocated among New Lenders having Proposed New Commitments and Lenders having Proposed Increased Commitments as follows:

(i) If the Total Committed Increase shall be at least \$25,000,000 and less than or equal to the Proposed Aggregate Commitment Increase, then subject to subclause (iii) of this Section 2.01(c)(6) and clause (7) below (x) the initial Commitment of each New Lender shall be such New Lender's Proposed New Commitment and (y) the Commitment of each Lender shall be increased by such Lender's Proposed Increased Commitment.

(ii) If the Total Committed Increase shall be greater than the Proposed Aggregate Commitment Increase, then the Proposed Aggregate Commitment Increase shall be allocated:

(x) first to Lenders (to the extent of their respective Proposed Increased Commitments) in such a manner as the Borrower and the Agent shall agree; and

(y) then to New Lenders on a pro rata basis based on the ratio of each New Lender's Proposed Increased Commitment (if any) to the

aggregate amount of the Proposed New Commitments of all of the New Lenders.

(iii) Any up-front fees payable to the Lenders or New Lenders in respect of any increase in the Commitments pursuant to this Section 2.01(c) shall be calculated on a pro rata basis as among the Lenders and New Lenders based upon their respective increased Commitments and new Commitments as allocated pursuant to this clause (6).

(7) The increases in the Commitments contemplated hereby shall not become effective until the Agent shall have received (x) new Committed Notes, payable to the respective Lenders and New Lenders in amounts reflecting such increases (and shall have received the existing Notes being replaced thereby, which shall, promptly upon receipt by the Agent, be returned to the Borrower marked "Cancelled"), and (y) evidence satisfactory to the Agent (including an update of the opinion of counsel provided for in Section 3.01 (d)) that such increases in the Commitments, and borrowings thereunder, have been duly authorized

(8) As used herein, (i) "New Lender" means a financial institution proposed by the Borrower and acceptable to the Agent, and (ii) "New Commitment Acceptance" means an instrument executed and delivered by a New Lender and accepted by the Agent in substantially the form of Exhibit J.

SECTION 2.02. Making the Committed Advances. (a)

Determination of Eurodollar Rate. The Borrower may request the Reference Bank, no earlier than 9:00 A.M. (New York City time) and no later than 11:00 A.M. (New York City time) on the third Business Day before a proposed Eurodollar Rate Advance, to notify the Borrower of the Eurodollar Rate that would be applicable to a Committed Advance in the principal amount and with the Interest Period as described by the Borrower in such request, which request shall be substantially in the form of Exhibit B-1 (a "Rate Request"). Upon such request, the Reference Bank shall furnish such interest rate to the Borrower no later than noon (New York City time) on the second Business Day before the proposed Eurodollar Rate Advance by delivering to the Borrower a copy of the related Rate Request setting forth such rate and executed by an authorized officer of the Reference Bank in the space provided therefor (a "Rate Notification"). The Borrower shall be entitled to rely on any such notification and such rate shall be conclusive and binding on the Lenders absent manifest error.

(b) Notice of Borrowing. Each Committed Borrowing shall be made on notice by the Borrower to the Agent, which shall give to each Lender prompt notice thereof by telecopier or telex, given not later than 11:00 A.M. (New York City time) on the date of the proposed Committed Borrowing if such Committed Borrowing is to be comprised of Base Rate Advances and no earlier than 9:00 A.M. (New York City time) and no later than 4:00 P.M. (New York City time) on the third Business Day prior to such date if such Committed Borrowing is to be comprised of Eurodollar Rate Advances. Each such notice of a Committed Borrowing (a "Notice of Borrowing") shall be by telecopier, telex or cable, or by telephone

confirmed immediately in writing, in substantially the form of Exhibit B-2 hereto, specifying therein the requested (i) date of such Committed Borrowing, (ii) Type of Advances comprising such Committed Borrowing, (iii) aggregate amount of such Committed Borrowing and (iv) in the case of a Committed Borrowing consisting of Eurodollar Rate Advances, the initial Interest Period for each such Committed Advance. Each Lender shall, before 1:00 P.M. (New York City time) on the date of such Committed Borrowing, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's Pro Rata Share of such Committed Borrowing. Promptly after the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower by depositing the same in immediately available funds into such account as the Borrower shall have specified in the related Notice of Borrowing.

(c) Illegality, Etc. Anything in subsection (a) or (b) above to the contrary notwithstanding,

(i) if any Lender shall, at least one Business Day before the date of any requested Advance or the date of any conversion to or continuation of a Eurodollar Rate Advance, notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or that any central bank or other governmental authority asserts that it is unlawful, for such Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, the Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon (A) such Lender shall have no obligation to make Eurodollar Rate Advances, or to convert Advances into Eurodollar Rate Advances, until such Lender notifies the Borrower and the Agent that the circumstances causing such suspension no longer exist and (B) the Borrower shall be deemed to have converted all Eurodollar Rate Advances of such Lender then outstanding into Base Rate Advances in accordance with Section 2.04 on and as of the date of the Agent's receipt of such notice, unless and to the extent such notice directs that one or more Eurodollar Rate Advances shall be so converted on the last day of the applicable Interest Period, provided that (w) before giving any such notice, such Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Applicable Lending Office if the making of such a designation would avoid the need for such suspension and conversion and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender, (x) any request by the Borrower for Eurodollar Rate Advances during a time when a Lender's obligation to make, or convert Advances into, Eurodollar Rate Advances shall be suspended hereunder shall be deemed to be a request for, or for conversion into, Base Rate Advances from such Lender, (y) all Advances that would otherwise be made by such Lender as Eurodollar Rate Advances during any such suspension shall instead be made as Base Rate Advances, and (z) in the event any Lender shall notify the Agent and the Borrower of the occurrence of the circumstances causing such suspension under this Section 2.02(c), all payments and prepayments of principal that would otherwise have been applied to repay the

Eurodollar Rate Advances that would have been made by such Lender or the converted Eurodollar Rate Advances shall instead be applied to repay the Base Rate Advances made by such Lender in lieu of, or resulting from the conversion of, such Eurodollar Rate Advances;

(ii) if the Reference Bank cannot furnish the Eurodollar Rate for any Committed Borrowing consisting of Eurodollar Rate Advances because of conditions existing in the London interbank market, the right of the Borrower to select Eurodollar Rate Advances shall be suspended until the Reference Bank shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist; and

(iii) if the Required Lenders shall, at least one Business Day before the date of any requested Eurodollar Rate Advance, notify the Agent that the Eurodollar Rate for any Interest Period will not adequately reflect the cost to the Required Lenders of making, funding or maintaining their respective Eurodollar Rate Advances for such Interest Period, the Agent shall forthwith so notify the Borrower and the Lenders, whereupon the Lenders shall have no obligation to make, or convert Committed Advances into, Eurodollar Rate Advances until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

(d) Effect of Failure to Fulfill Conditions. Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Committed Borrowing that the related Notice of Borrowing specifies is to be comprised of Eurodollar Rate Advances, and in the case of the extension of maturity provided for in Section 2.07(c), the Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Committed Borrowing the applicable conditions set forth in Article III, or, in the case of such extension, the failure to fulfill the conditions thereto specified in Section 2.07(c), including, without limitation, any loss (excluding anticipated profits), cost or expense reasonably incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Committed Advance to be made by such Lender as part of such Committed Borrowing when such Advance, as a result of such failure, is not made on such date, such indemnity to be paid promptly upon receipt by the Borrower of a certificate of such Lender setting forth the calculation of the amount of the indemnity claimed by such Lender.

(e) Funds Available. Unless the Agent shall have received notice from a Lender prior to the date of any Committed Borrowing that such Lender will not make available to the Agent such Lender's ratable portion of such Committed Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Committed Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Agent, such Lender and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such

amount is repaid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at the time to Committed Advances comprising such Committed Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's Committed Advance as part of such Committed Borrowing for purposes of this Agreement.

(f) Failure to Make Advances. The failure of any Lender to make the Committed Advance to be made by it as part of any Committed Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Committed Advance on the date of such Committed Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Committed Advance to be made by such other Lender on the date of any Committed Borrowing.

SECTION 2.03. Fees. (a) Facility Fee. The Borrower agrees to pay to the Agent for the account of each Lender a facility fee on the aggregate amount of such Lender's Commitment from the date hereof in the case of each Initial Lender and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the Termination Date at the Applicable Facility Fee Rate, payable quarterly in arrears on the last day of each March, June, September and December during the term hereof and on the Termination Date. All computations of the facility fee shall be based on a year of 365 or 366 days, as the case may be.

(b) Agent's Fees. The Borrower shall pay to the Agent for its own account such fees as may from time to time be agreed between the Borrower and the Agent.

SECTION 2.04. Continuation and Conversion. (a) General. Subject to the other provisions hereof, the Borrower shall have the option (i) to convert all or any part of an outstanding Committed Borrowing consisting of Base Rate Advances to a Committed Borrowing consisting of Eurodollar Rate Advances, (ii) to convert all or any part of an outstanding Committed Borrowing consisting of Eurodollar Rate Advances to a Committed Borrowing consisting of Base Rate Advances, or (iii) to continue all or any part of an outstanding Committed Borrowing consisting of Eurodollar Rate Advances as a Committed Borrowing consisting of Eurodollar Rate Advances for an additional Interest Period; provided that no Committed Borrowing consisting of Eurodollar Rate Advances shall be so converted other than as contemplated by Section 2.02(c) or continued, until the expiration of the Interest Period applicable thereto.

(b) Notice of Conversion or Continuation. In order to elect to convert or continue a Committed Borrowing hereunder, the Borrower shall deliver an irrevocable notice thereof (a "Notice of Conversion or Continuation") to the Agent by telecopier, telex or cable or by telephone confirmed immediately in writing, no later than (i) 11:00 A.M., (New York City time) on the proposed conversion date in the case of a conversion to Base Rate Advances and (ii) no earlier than 9:00 A.M. (New York City time) and no later than 4:00 P.M. (New York City time) on the third Business Day in advance of the proposed conversion or continuation date in the case of a conversion to, or a continuation of, Eurodollar Rate

Advances, substantially in the form of Exhibit C hereto. A Notice of Conversion or Continuation shall specify (w) the requested conversion or continuation date (which shall be a Business Day), (x) the amount and Type of the Advances to be converted or continued, (y) whether a conversion or continuation is requested, and (z) in the case of a conversion to, or a continuation of, Eurodollar Rate Advances, the requested Interest Period. The relevant Eurodollar Rate for such Interest Period in the case of a conversion to, or a continuation of, Eurodollar Rate Advances shall be determined in the manner provided in Section 2.02(a) as if such conversion or continuation is instead new Eurodollar Rate Advances in such amount, on such date and for such Interest Period. If the Borrower fails to give a Notice of Conversion or Continuation with respect to an outstanding Committed Borrowing consisting of Eurodollar Rate Advances as provided in clause (ii) above, the Borrower shall be deemed to have converted such Eurodollar Rate Advances into Base Rate Advances in accordance with this Section 2.04 if such Advances are outstanding after the last day of the Interest Period with respect thereto.

SECTION 2.05. Interest on Advances. The Borrower shall pay interest on the unpaid principal amount of each Advance owing to each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(a) Base Rate Advances. If such Advance is a Base Rate Advance, a rate per annum equal to the Base Rate in effect from time to time, payable in arrears quarterly on the last Business Day of each fiscal quarter during the period such Base Rate Advance remains outstanding and on the date such Base Rate Advance shall be paid in full;

(b) Eurodollar Rate Advances. If such Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during the Interest Period for such Advance to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Eurodollar Margin for such Advance, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day which occurs during such Interest Period every three months from the first day of such Interest Period;

(c) Floating Rate Advances. If such Advance is a Floating Rate Advance, a rate per annum equal at all times during the Interest Period for such Advance to the Floating Rate for such Interest Period quoted by such Lender in accordance with Section 2.13, payable in arrears on the last Business Day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day which occurs during such Interest Period every three months from the first day of such Interest Period;

(d) Fixed Rate Advances. If such Advance is a Fixed Rate Advance, a rate per annum equal at all times during the Interest Period for such Advance to the Fixed Rate for such Interest Period quoted by such Lender in accordance with Section 2.13, payable in arrears on the last day of such Interest Period and, if such Interest Period

has a duration of more than three months, on each day which occurs during such Interest Period every three months from the first day of such Interest Period; and

(e) Default Rate. In the event that, and for so long as, any Event of Default shall have occurred and be continuing, the outstanding principal amount of all Advances and, to the extent permitted by law, overdue interest in respect of all Advances, shall bear interest at a rate per annum equal to the sum of two percent (2%) plus the interest rate otherwise applicable hereunder to such principal amount in effect from time to time. In the event that, and for so long as, any Default under Section 6.01(a) shall have occurred and be continuing, the outstanding principal amount of the Advance with respect to which such Default has occurred and is continuing shall bear interest at a rate per annum equal to the sum of two percent (2%) plus the interest rate otherwise applicable hereunder to such principal amount in effect from time to time.

SECTION 2.06. Additional Interest on Eurodollar Rate

Advances. The Borrower shall pay to each Lender, during each period as such Lender shall be required under regulations of the Federal Reserve Board to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Eurodollar Rate Advance of such Lender outstanding during such period, from the later of the date such reserves are required and the making of such Advance until the earlier of the date such reserves are no longer required and such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the Eurodollar Rate for the Interest Period applicable to such Advance from (ii) the rates obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the average Eurodollar Rate Reserve Percentage of such Lender during such period, payable on each date on which interest is payable on such Advance. Such Lender shall determine the amount of such additional interest, if any, and promptly notify the Borrower through the Agent of the amount thereof.

SECTION 2.07. Repayment and Prepayment of Advances. (a) The

Borrower shall repay to the Agent for the ratable account of the Lenders on the Termination Date or, in the case of extension pursuant to Section 2.07(c), on the Term Date, the aggregate principal amount of the Committed Advances then outstanding and the Borrower shall repay to the Agent for the account of the Lenders to which Uncommitted Advances comprising part of the same Borrowing are owing the aggregate principal amount of such Uncommitted Advances then outstanding on the last day of the Interest Period with respect thereto. The Borrower shall have no right to prepay any principal amount of any Advances other than as provided in this Section 2.07. The Borrower may, upon at least two Business Days' notice to the Agent stating the proposed date and principal amount of the prepayment, and if such notice is given the Borrower shall, prepay the outstanding principal amount of the Committed Advances comprising part of the same Committed Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that each partial prepayment shall be in the aggregate principal amount of at least \$10,000,000 or a larger whole multiple of \$1,000,000 and, in the case of a payment or

prepayment of a Eurodollar Rate Advance other than on the last day of the Interest Period for such Advance as provided herein, shall have the consequences set forth in Section 8.04(b).

(b) The Borrower shall notify the Agent immediately upon becoming aware of any Change of Control. Upon receipt of such notice and for a period of 90 days thereafter, the Required Lenders shall be entitled, by written notice to the Borrower received within such period, to terminate the Commitments in whole and require the Borrower to prepay all outstanding Advances within 5 Business Days of its receipt of such notice, together with any accrued and unpaid interest thereon to the date of such prepayment and any other amounts due hereunder. Notwithstanding any other provision contained herein, a Change of Control shall not, in and of itself, constitute a Default hereunder.

(c) The Borrower may, by notice in substantially the form of Exhibit B-4 (a "Notice of Extension") to the Agent not less than 15 days prior to the Termination Date, elect that the maturity of all Committed Advances outstanding as of the close of business New York time on the Termination Date be extended to the Term Date; provided, that the extension provided for in this clause (c) shall be subject to the condition that, both on the date of the Notice of Extension and on the Termination Date, no Default shall have occurred and be continuing; and provided, further, that after giving effect to such extension each reference in this Agreement to "Eurodollar Rate Advances", "Base Rate Advances" and "Advances" shall be deemed to include the Advances referred to in this Section 2.07(c) (but the Lenders shall have no further obligation to make any additional Committed Advances after the Termination Date).

SECTION 2.08. Increased Costs. (a) Changes in Law, Etc. If, due to (i) the introduction of or any change in or in the interpretation of any law or regulation on or after the date of this Agreement, or (ii) the compliance with any guideline or request not applicable on the date of this Agreement from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances, then the Borrower shall from time to time, promptly upon demand by such Lender (with a copy of such demand to the Agent) accompanied by the certificate described in the next sentence, pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost. A certificate as to the amount of such increased cost, submitted to the Borrower and the Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) Capital Adequacy. If, due to (i) the introduction of or any change in or in the interpretation of any law or regulation on or after the date of this Agreement, or (ii) the compliance with any guideline or request not applicable on the date of this Agreement from any central bank or other governmental authority (whether or not having the force of law), any Lender determines that the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender has been or would be affected and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend hereunder and other commitments of this type, then, upon demand by

such Lender received by the Borrower within such time from the relevant change or introduction described above as is reasonably required in order to determine the effect thereof (with a copy of such demand to the Agent) accompanied by a certificate of such Lender as to the amounts demanded, the Borrower shall pay to the Agent for the account of such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender or such corporation, as the case may be, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend hereunder, such amounts to be due and payable within two days of such Lender's invoice therefor. A certificate as to such amounts submitted to the Borrower and the Agent by such Lender shall be conclusive and binding for all purposes, absent manifest error.

SECTION 2.09. Payments and Computations. (a) Manner of Payment. The Borrower shall make each payment hereunder and under the Notes not later than 11:00 A.M. (New York City time) on the day when due in Dollars to the Agent at the Agent's Account in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or facility fees ratably (other than amounts payable pursuant to Section 2.02(d), 2.06, 2.08, 2.10, 2.13(f) or 8.04(b)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) Setoff. The Borrower hereby authorizes each Lender, if and to the extent payment owed to such Lender is not made when due hereunder or under the Note or Notes held by such Lender, to charge from time to time against any or all of the Borrower's accounts with such Lender any amount so due.

(c) Interest. All computations of interest based on the Base Rate shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate or the Federal Funds Rate or with respect to Uncommitted Advances and all computations of interest pursuant to Section 2.06 shall be made by the Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. Each determination by the Reference Bank of an interest rate for any Committed Advance hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Business Days. Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on

the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or facility fee, as the case may be; provided that if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Assumption of Payment. Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

(f) Rate Information. The Reference Bank shall notify the Borrower and the Agent of the Base Rate in effect on the first Business Day on which a Base Rate or Floating Rate Advance is outstanding and each day on which a change in the Base Rate occurs, each in sufficient detail to enable the Borrower to calculate interest payments hereunder with respect to Base Rate Advances and Floating Rate Advances, and shall provide such information to any Lender promptly upon its request. The Borrower will provide to each Lender (i) (unless the Lender is the Reference Bank) promptly upon receipt thereof copies of the information received by the Borrower pursuant to the immediately preceding sentence or any Rate Notification received pursuant to Section 2.02(a), (ii) promptly upon the making of any interest payment with respect to a Base Rate Advance or a Floating Rate Advance hereunder a schedule based on such information setting forth the Base Rate for each day in the period in which such Advance was outstanding, and (iii) promptly upon obtaining knowledge thereof, notice of any change in the rating assigned by Standard & Poor's or Moody's to the Borrower's Long-Term Indebtedness and the date of such change, provided that the Borrower's failure to provide any of the foregoing information shall be deemed not to be a Default or Event of Default hereunder.

SECTION 2.10. Taxes. (a) General. Any and all payments by the Borrower hereunder or under the Notes shall be made in accordance with Section 2.09, free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, not in effect or not imposed on the date of this Agreement; excluding, in the case of each Lender and the Agent, taxes imposed on its income, and franchise taxes imposed on it by the jurisdiction under the laws of which such Lender or the Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Lender, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes").

(b) Other Taxes. In addition, the Borrower agrees to pay any stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under the Notes or from the execution, delivery or registration of, or otherwise with respect to, this Agreement not in effect or not imposed on the date of this Agreement or the Notes (hereinafter referred to as "Other Taxes") upon notice from the Lender.

(c) Tax Indemnity. The Borrower will indemnify each Lender and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.10) paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor.

(d) Receipt. Within 30 days after the date of any payment of Taxes, the Borrower will furnish to the Agent, at its address referred to in Section 8.02, the original or a certified copy of a receipt evidencing payment thereof.

(e) Survival. Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this Section 2.10 shall survive the payment in full of principal and interest hereunder.

SECTION 2.11. Evidence of Debt. The Committed Advances owing to each Lender shall be evidenced by the Committed Note to the order of such Lender and the Uncommitted Advances owing to each Lender shall be evidenced by the Uncommitted Note to the order of such Lender, in each case delivered to such Lender pursuant to Article III. The entries made in each Committed Note and each Uncommitted Note shall be conclusive and binding for all purposes absent manifest error.

SECTION 2.12. Use of Proceeds of Advances. The Borrower will use the proceeds of the Advances for general corporate purposes, including, without limitation, for the acquisition of Margin Stock.

SECTION 2.13. Uncommitted Advances. (a) The Uncommitted Advances Option. In addition to Committed Advances pursuant to Section 2.01, the Borrower may, as set forth in this Section 2.13, request the Lenders to make offers to make Uncommitted Advances to the Borrower. Each Lender may, but shall have no obligation to, make such offers and the Borrower may, but shall have no obligation to, accept any such offers in the manner set forth in this Section 2.13; provided that, following the making of each Uncommitted Borrowing, the aggregate amount of the Advances then outstanding shall not exceed the aggregate amount of the Commitments of the Lenders. The Uncommitted Advances may be Floating Rate Advances or Fixed Rate Advances.

(b) Quote Request. When the Borrower wishes to request offers to make Uncommitted Advances as part of an Uncommitted Borrowing, it shall transmit to the Agent, by telecopier or telex, a quote request substantially in the form of Exhibit E hereto (a "Quote Request") so as to be received (x) no earlier than 9:00 A.M. (New York City time) and no later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of Borrowing proposed therein, in the case of a Fixed Rate Auction, or (y) no later than 11:00 A.M. (New York City time) on the Business Day immediately preceding the proposed date of Borrowing proposed therein, in the case of a Floating Rate Auction, specifying:

(i) the proposed date of Borrowing, which shall be a Business Day;

(ii) the proposed aggregate amount of such Borrowing, which shall be \$10,000,000 or a larger whole multiple of \$1,000,000; and

(iii) the duration of the proposed Interest Period applicable thereto subject to the provisions of the definition of Interest Period.

The Agent shall in turn promptly notify each Lender of each request for an Uncommitted Borrowing received by it from the Borrower by sending such Lender a copy of the related Quote Request. The Borrower may request offers to make Uncommitted Advances for more than one Interest Period in a single Quote Request. No Quote Request shall be given within five Business Days of any other Quote Request.

(c) Submission and Contents of Quotes. (i) Each Lender may but shall not be required to submit a Quote containing an offer or offers to make an Uncommitted Advance as part of a proposed Uncommitted Borrowing in response to any Quote Request. Each Quote must comply with the requirements of this Section 2.13(c) and must be submitted to the Agent (which shall give prompt notice thereof to the Borrower) in writing (including by telecopy) no later than (A) 11:00 A.M. (New York City time) on the third Business Day prior to the proposed date of borrowing in the case of a Fixed Rate Auction or (B) 11:00 A.M. (New York City time) on the Business Day immediately preceding the proposed date of borrowing, in the case of a Floating Rate Auction; provided that if the Agent in its capacity as a Lender shall, in its sole discretion, elect to make any such offer, it shall notify the Borrower of such offer at least 30 minutes before the time and on the date on which notice of such election is to be given to the Agent by the other Lenders. If any Lender shall elect not to make such an offer, such Lender shall so notify the Agent, before 11:00 A.M. (New York City time) on the date on which notice of such election is to be given to the Agent by the other Lenders, and such Lender shall not be obligated to, and shall not, make any Uncommitted Advance as part of such Uncommitted Borrowing; provided that the failure by any Lender to give such notice shall not cause such Lender to be obligated to make any Uncommitted Advance as part of such proposed Uncommitted Borrowing. Any Quote so made shall be irrevocable except with the written consent of the Borrower.

(ii) A Quote may set forth each separate offer by a Lender with respect to each Interest Period specified in the related Quote Request. Each Quote shall be in substantially the form of Exhibit F hereto, and shall in any case specify:

(A) the principal amount of the Uncommitted Advance for each such offer, which principal amount (1) may be greater than or less than the Commitment of such Lender, (2) must be a whole multiple of \$1,000,000, (3) may not exceed (but may be less than) the proposed principal amount of the proposed Uncommitted Borrowing set forth in the related Quote Request, and (4) may be subject to an aggregate limitation as to the principal amount of Uncommitted Advances for which offers being made by such Lender may be accepted;

(B) in the case of a Floating Rate Auction, the margin below the Base Rate (the "Floating Rate Margin") offered for each such Uncommitted Advance expressed as a percentage (specified to the nearest 1/1,000th of 1%) to be subtracted from such Base Rate; and

(C) in the case of a Fixed Rate Auction, the rate of interest per annum (specified to the nearest 1/1,000th of 1%) (the "Fixed Rate") offered for each such Uncommitted Advance.

(iii) Any Quote shall be disregarded if it:

(A) is not substantially in conformity with the format described in the relevant Quote Request or does not specify all of the information required by Section 2.13(c) (ii);

(B) contains qualifying, conditional or similar language;

(C) proposes terms other than or in addition to those set forth in the applicable Quote Request; or

(D) is received by the Agent after the time set forth in Section 2.13(c) (i).

(d) Acceptance and Notice by Borrower. Not later than (i) 1:00 P.M. (New York City time) on the third Business Day prior to the proposed date of borrowing, in the case of a Fixed Rate Auction or (ii) 1:00 P.M. (New York City time) on the Business Day immediately preceding the proposed date of borrowing, in the case of a Floating Rate Auction, the Borrower shall notify the Agent (which shall give prompt notice thereof to the Lenders) of its acceptance or nonacceptance of the offers so notified to it pursuant to Section 2.13(c) substantially in the form of Exhibit G hereto; provided that if the Borrower shall fail to so notify the Agent by the times set forth above, the Borrower shall be deemed to have notified the Agent of its nonacceptance of each such offer. In the case of acceptance, each such notice shall specify the aggregate principal amount of offers that are accepted. The Borrower may accept any such offer in whole or in part; provided that:

(i) the aggregate principal amount of each Uncommitted Borrowing may not exceed the applicable amount set forth in the related Quote Request;

(ii) the principal amount of each Uncommitted Borrowing must be \$10,000,000 or a larger whole multiple of \$1,000,000;

(iii) acceptance of offers from the Lenders may only be made on the basis of ascending Floating Rate Margins or Fixed Rates, as the case may be; and

(iv) the Borrower may not accept any offer that is described in Section 2.13(c)(iii) or that otherwise fails to comply with the requirements of this Agreement.

(e) Allocation. If offers are made by more than one Lender with the same Floating Rate Margins or Fixed Rates, as the case may be, for a greater aggregate principal amount than the amount in respect of which such offers are accepted, the principal amount of Uncommitted Advances in respect of which such offers are accepted shall be allocated by the Agent among such Lenders as nearly as possible (in such multiples, not less than \$1,000,000, as it may deem appropriate) in proportion to the aggregate principal amounts of such offers. Determinations by the Agent of the allocations of Uncommitted Advances shall be binding and conclusive in the absence of manifest error. The Agent shall promptly notify the Borrower and the Lenders of any allocation pursuant to this Section 2.13(e).

(f) Funding. In the case of an Uncommitted Borrowing as to which the Borrower has accepted the offer of one or more Lenders to make an Uncommitted Advance under clause (d) above, before 12:00 noon (New York City time) on the date of such Uncommitted Borrowing, each such Lender shall make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's portion of such Uncommitted Borrowing. Upon fulfillment of the applicable conditions set forth in Article III and after receipt by the Agent of such funds, the Agent will make such funds available to the Borrower by depositing the same in immediately available funds into such account as the Borrower shall have specified in the related notice of acceptance (in substantially the form of Exhibit G). Promptly after each Uncommitted Borrowing the Agent will notify each Lender of the amount of the Uncommitted Borrowing, the aggregate principal amount of the Uncommitted Advances then outstanding and the dates upon which such Uncommitted Advances commenced and will mature.

### ARTICLE III

#### CONDITIONS TO EFFECTIVENESS AND LENDING

SECTION 3.01. Condition Precedent to Effectiveness of Sections 2.01 and 2.13. This Agreement shall become effective on the date (the "Effective Date"), which shall be on or before October 23, 1996, as of which the Agent shall confirm to the Borrower that it has received the following, each dated such day, in form and substance satisfactory to the Agent and (except for the Notes) in sufficient copies for each Lender:

(a) Notes. The Committed Notes and the Uncommitted Notes to the order of the Lenders, respectively;

(b) Resolutions, Etc. Certified copies of documents evidencing all necessary corporate action and governmental approvals, if any, with respect to this Agreement, the Committed Notes and the Uncommitted Notes;

(c) Incumbency. A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement, the Committed Notes, the Uncommitted Notes and the other documents to be delivered hereunder; and

(d) Legal Opinion. An opinion of counsel to the Borrower substantially in the form of Exhibit H.

SECTION 3.02. Conditions Precedent to Each Advance. The obligation of each Lender to make each Advance (including the initial Advance) as part of a Borrowing shall be subject to the further conditions precedent that (i) on the date of such Borrowing the following statements shall be true (and each of the giving of the applicable Notice of Borrowing or the notice of acceptance under Section 2.13(d), as the case may be, and the acceptance by the Borrower of the proceeds of such Advance shall constitute a representation and warranty by the Borrower that on the date of such Advance the following statements shall be true): (x) the representations and warranties contained in Section 4.01 are correct in all material respects on and as of the date of such Borrowing, before and after giving effect to such Borrowing and to the application of the proceeds therefrom, as though made on and as of such date, and (y) no event has occurred and is continuing, or would result from such Borrowing or from the application of the proceeds therefrom, that would constitute an Event of Default, or would constitute an Event of Default but for the requirement that notice be given or time elapse or both and (ii) in the case of a requested Borrowing the proceeds of which are to be used to purchase or carry any Margin Stock, the Borrower shall deliver to the Agent a certificate of the chief financial officer of the Borrower accompanying the relevant Notice of Borrowing setting forth in reasonable detail the basis upon which the Borrower has made the representation set forth in the third sentence of Section 4.01(1) on and as of the date of such Borrowing, before and after giving effect to such Borrowing and to the application of the proceeds therefrom.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) Corporate Existence. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Connecticut.

(b) Corporate Authorization, Etc. The execution, delivery and performance by the Borrower of this Agreement and the Notes are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action and do not contravene (i) the Borrower's charter or bylaws or (ii) any law or contractual restriction binding on or affecting the Borrower or any of its Subsidiaries.

(c) No Approvals. No authorization, approval or action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Borrower of this Agreement or the Notes.

(d) Enforceability. This Agreement is and upon issuance and delivery thereof in accordance with Article III each Note will be the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

(e) Financial Information. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 30, 1995 and the related statements of income and retained earnings of the Borrower and its Consolidated Subsidiaries for the fiscal year then ended, copies of which have been furnished to the Lenders, fairly present in all material respects the financial condition of the Borrower and its Consolidated Subsidiaries as of such date and the results of the operations of the Borrower and its Consolidated Subsidiaries for the period ended on such date, all in accordance with GAAP consistently applied.

(f) No Litigation. Except as disclosed or otherwise reflected in the Borrower's Annual Report on Form 10-K for the year ended December 30, 1995, there is no pending or (to the best of the Borrower's knowledge) threatened action or proceeding against the Borrower or any of its Subsidiaries or relating to any of their respective properties before any court, governmental agency or arbitrator, which could reasonably be expected to have a Material Adverse Effect or which purports to affect the legality, validity or enforceability of this Agreement or any Note.

(g) No Material Adverse Effect. Since December 30, 1995, there has been no event, act or condition which has had a Material Adverse Effect.

(h) Environmental Matters. Except as disclosed or otherwise reflected in the Borrower's Annual Report on Form 10-K for the year ended December 30, 1995, neither the Borrower nor any of its Subsidiaries has received notice or otherwise obtained knowledge of any claim, demand, action, event, condition, report or investigation indicating or concerning any potential or actual liability which could reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect arising in connection with (i) any noncompliance with or violation of the

requirements of any applicable federal, state or local environmental health or safety statutes or regulations, or (ii) the release or threatened release of any toxic or hazardous waste, substance or constituent into the environment.

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

(j) Disclosure. The information furnished in writing by or on behalf of the Borrower to the Lenders in connection with the negotiation, execution and delivery of this Agreement does not contain any material misstatements of fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(k) No Defaults. The Borrower (i) is not in default under or with respect to this Agreement or any Note, and (ii) is not in default under or with respect to any other agreement, instrument or undertaking to which it is a party or by which it or any of its property is bound in any respect which could reasonably be expected to result in a Material Adverse Effect.

(l) Use of Proceeds, Etc. All proceeds of each Advance will be used by the Borrower only in accordance with the provisions of Section 2.12. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock and no proceeds of any Advance will be used to extend credit to others for the purpose of purchasing or carrying any Margin Stock. Neither the making of any Advance nor the use of the proceeds thereof will violate or be inconsistent with the provisions of Regulations G, U, or X issued by the Board of Governors of the Federal Reserve System.

#### ARTICLE V

##### COVENANTS OF THE BORROWER

SECTION 5.01. Affirmative Covenants. So long as any Advance or any other amount owing hereunder shall remain unpaid or any Lender shall have any Commitment hereunder:

(a) Financial Information. The Borrower will furnish to the Lenders:

(i) Quarterly Financial Statements. Within 50 days after the close of each quarterly accounting period in each fiscal year of the Borrower, the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as at the end of such quarterly period and the related consolidated and consolidating statements of income, retained earnings and cash flows for such quarterly period and for the elapsed portion

of the fiscal year ended with the last day of such quarterly period, in each case setting forth comparative figures for the related periods in the prior fiscal year.

(ii) Annual Financial Statements. Within 95 days after the close of each fiscal year of the Borrower, the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as at the end of such fiscal year and the related consolidated statement of income, retained earnings and cash flows for such fiscal year, setting forth comparative figures for the preceding fiscal year and reported on without qualification by independent certified public accountants of recognized national standing, in each case together with a report of such accounting firm stating that in the course of its regular audit of the consolidated financial statements of the Borrower, which audit was conducted in accordance with generally accepted auditing standards, such accounting firm has obtained no knowledge of any Default or Event of Default relating to accounting matters (including, without limitation, in respect of Section 5.01(f)), or if in the opinion of such accounting firm such a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof.

(iii) Officer's Certificates. At the time of the delivery of the financial statements under clauses (i) and (ii) above, a certificate of the chief financial officer of the Borrower which certifies (x) that such financial statements fairly present the financial condition and the results of operations of the Borrower and its Subsidiaries on the dates and for the periods indicated, and (y) that such officer has reviewed the terms of this Agreement and has made, or caused to be made under his or her supervision, a review in reasonable detail of the business and condition of the Borrower and its Consolidated Subsidiaries during the accounting period covered by such financial statements, and that as a result of such review such officer has concluded that no Default or Event of Default has occurred during the period commencing at the beginning of the accounting period covered by the financial statements accompanied by such certificate and ending on the date of such certificate or, if any Default or Event of Default has occurred, specifying the nature and extent thereof and, if continuing, the action the Borrower proposes to take in respect thereof. Such certificate shall set forth the calculations required to establish whether the Borrower was in compliance with the provisions of Section 5.01(f) for the twelve-month period ending as at the end of the accounting period covered by the financial statements accompanied by such certificate.

(iv) Notice of Default or Litigation. Promptly after the Borrower obtains knowledge thereof, notice of (i) the occurrence of any Default or Event of Default, or (ii) any litigation or governmental proceeding pending or threatened against the Borrower or other event, act or condition which could reasonably be expected to result in a Material Adverse Effect.

(v) SEC Filings. Promptly upon transmission thereof, copies of all regular and periodic financial information, proxy materials and other information and reports, if any, which the Borrower shall file with the Securities and Exchange Commission or

any governmental agencies substituted therefor or which the Borrower shall send to its stockholders.

(vi) Other Information. From time to time, and as soon as reasonably practicable, such other information or documents (financial or otherwise) as any Lender through the Agent may from time to time reasonably request.

(b) Compliance with Law. The Borrower shall, and shall cause each of its Subsidiaries to, comply with all applicable laws, rules, statutes, regulations, decrees and orders of all governmental bodies, domestic or foreign, in respect of the conduct of their business and the ownership of their property, except such non-compliance as could not reasonably be expected to result in a Material Adverse Effect at the time of such noncompliance or in the foreseeable future.

(c) Payment of Taxes. The Borrower shall pay or cause to be paid, and shall cause each of its Subsidiaries to pay or cause to be paid, when due, all taxes, charges and assessments and all other lawful claims required to be paid by the Borrower or such Subsidiaries, except (x) as contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves have been established with respect thereto in accordance with GAAP and (y) where such nonpayment could not reasonably be expected to result in a Material Adverse Effect.

(d) Preservation of Corporate Existence. The Borrower shall, and shall cause each of its Subsidiaries to, do all things necessary to preserve, renew and keep in full force and effect its corporate existence and the licenses, permits, rights and franchises necessary to the proper conduct of its business, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any of its Subsidiaries will engage in any business if, as a result, the general nature of the business, taken on a consolidated basis, which would then be engaged in by the Borrower and its Subsidiaries would be substantially changed from the general nature of the business engaged in by the Borrower and its Subsidiaries on the date of this Agreement.

(e) Maintenance of Books and Records. The Borrower will maintain financial records in accordance with GAAP, consistently applied. The representatives of the Agent or any of the Lenders shall have the right to visit and inspect any of the properties of the Borrower and of any of its Subsidiaries, to examine their books of account and records and take notes and make transcripts therefrom, and to discuss their affairs, finances and accounts with, and be advised as to the same by, their officers at such reasonable times and intervals as may be requested.

(f) Financial Condition. The Borrower shall cause Consolidated Cash Flow to equal or exceed 125% of Consolidated Cash Expenditures at the end of each fiscal quarter for the twelve-month period then ended. The defined terms used in this clause (f) shall be construed in accordance with GAAP and as follows:

(i) "Consolidated Cash Flow" means for any fiscal period the sum of (A) consolidated earnings before income taxes of the Borrower and its Consolidated Subsidiaries for such fiscal period (including any earnings representing net gain on disposition of assets) before extraordinary items and their tax effects and before income from discontinued operations; (B) to the extent such amount is greater than zero, (x) consolidated interest expense for the Borrower and its Consolidated Subsidiaries for such fiscal period, minus (y) consolidated interest earnings for the Borrower and its Consolidated Subsidiaries for such fiscal period; (C) consolidated depreciation and amortization for the Borrower and its Consolidated Subsidiaries for such fiscal period; (D) for any fiscal period which includes a fiscal quarter in fiscal year 1995, restructuring charges of the Borrower and its Consolidated Subsidiaries up to an aggregate of \$85.5 million in fiscal year 1995 to the extent such charges are taken into account in determining consolidated earnings during such fiscal quarter; (E) for any fiscal period which includes a fiscal quarter in fiscal year 1996, restructuring charges of the Borrower and its Consolidated Subsidiaries up to an aggregate of \$100 million in fiscal year 1996 to the extent such charges are taken into account in determining consolidated earnings for such fiscal quarter; and (F) for any fiscal period which includes a fiscal quarter in fiscal year 1997, restructuring charges of the Borrower and its Consolidated Subsidiaries up to an aggregate of an amount equal to (a) \$100 million minus (b) the aggregate amount of restructuring charges taken into account in determining consolidated earnings for any fiscal quarter in 1996.

(ii) "Consolidated Cash Expenditures" means for any fiscal period the sum of (A) consolidated interest expense of the Borrower and its Consolidated Subsidiaries, (B) consolidated capital expenditures of the Borrower and its Consolidated Subsidiaries and (C) the aggregate amount of all dividends paid or declared by the Borrower on any of its capital stock during such fiscal period; and

(iii) "Consolidated Subsidiary" means at any date any Subsidiary or other entity the financial statements of which would, under GAAP, be consolidated with those of the Borrower in its consolidated financial statements as of such date.

SECTION 5.02. Negative Covenants. So long as any Advance or any other amount owing hereunder shall remain unpaid or any Lender shall have any Commitment hereunder:

(a) No Liens. The Borrower shall not, and shall not permit any of its Subsidiaries to, create, incur, assume or suffer to exist, directly or indirectly, any Lien on any Principal Property now owned or hereafter acquired (unless the Borrower secures the Advances made hereunder equally and ratably with such Lien), other than:

(i) Liens existing and disclosed to the Lenders in writing prior to the date hereof;

(ii) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves are being maintained in accordance with GAAP;

(iii) Statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other Liens imposed by law created in the ordinary course of business for amounts not yet due or which are being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate bonds have been posted;

(iv) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(v) Easements, rights-of-way, zoning and similar restrictions and other similar charges or encumbrances not interfering with the ordinary conduct of the business of the Borrower or any of its Subsidiaries and which do not detract materially from the value of the property to which they attach or impair materially the use thereof by the Borrower or any of its Subsidiaries;

(vi) Liens on property of any Person existing at the time such Person becomes a Subsidiary of the Borrower;

(vii) Liens securing Indebtedness owed by a Subsidiary of the Borrower to the Borrower or another Subsidiary of the Borrower;

(viii) any Lien arising solely by operation of law in the ordinary course of business or which is contained in a contract for the purchase or sale of goods or services entered into in the ordinary course of business;

(ix) Liens on any property existing at the time of acquisition but only if the amount of outstanding Indebtedness secured thereby does not exceed the lesser of the fair market value or the purchase price of the property as purchased;

(x) any Lien securing the purchase price of revenues or assets purchased after the date hereof or the cost of repairing or altering, constructing, developing or substantially improving all or any part of such revenues or assets; provided that such Lien attaches only to such revenues or assets (including any improvements) and the Indebtedness thereby secured does not exceed the lesser of the fair market value or the purchase price of the revenues or assets (including any improvements) as purchased;

(xi) any other Liens securing Indebtedness which in the aggregate does not exceed 10% of Consolidated Net Tangible Assets at any time outstanding; and

(xii) any extension, renewal or replacement of any of the Liens referred to above; provided that the Indebtedness secured by any such extension, renewal or replacement does not exceed the sum of the principal amount of the Indebtedness originally secured thereby and any fee incurred in connection with such transaction.

(b) Merger, Etc. The Borrower shall not (i) enter into any merger or consolidation, or liquidate, wind up or dissolve (or suffer any liquidation, wind-up or dissolution), discontinue its business or convey, lease, sell, transfer or otherwise dispose of, in one transaction or series of transactions, all or substantially all of its business or property, whether now or hereafter acquired, or (ii) permit any of its Subsidiaries to do so, if such action could reasonably be expected to have a Material Adverse Effect, except that any wholly-owned Subsidiary of the Borrower may merge into or convey, sell, lease or transfer all or substantially all of its assets to, the Borrower or any other wholly-owned Subsidiary of the Borrower and the Borrower or any of its Subsidiaries may enter into any merger or consolidation so long as in the case of a transaction involving the Borrower, the Borrower, or in the case of any other transaction, a Subsidiary of the Borrower, is the surviving entity in such transaction and, after giving effect thereto, no Default or Event of Default shall have occurred or be continuing.

(c) Sale-Leasebacks. The Borrower shall not, and shall not permit any of its Subsidiaries to, become liable, directly or indirectly, with respect to any lease, whether an operating lease or a Capital Lease, of any property (whether real or personal or mixed) whether now owned or hereafter acquired (except for property the aggregate value of which at the time such lease is entered into is less than 10% of Consolidated Net Tangible Assets), (i) which the Borrower or such Subsidiary has sold or transferred or is to sell or transfer to any other Person, or (ii) which the Borrower or such Subsidiary intends to use for substantially the same purposes as any other property which has been or is to be sold or transferred by the Borrower or such Subsidiary to any other Person in connection with such lease.

#### ARTICLE VI

##### EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) The Borrower shall fail to pay when due any principal of any Advance (or, if any such failure is due solely to technical or administrative difficulties relating to the transfer of such amounts, within two Business Days after its due date) or the Borrower shall fail to pay when due any interest on any Advance, any fee (other than the fees referenced in Section 2.03) or any other amount payable by it hereunder or under any Note and five (5) days shall have elapsed from the date such interest, fees or

other amounts were due; or with respect to the fees payable pursuant to Section 2.03, the Borrower shall fail to pay any such fee when due and two Business Days shall have elapsed from the Borrower's receipt of notice of such nonpayment from the Agent or any Lender; or

(b) Any representation or warranty made by the Borrower herein or pursuant to this Agreement or any Note (including without limitation in any certificate of the Borrower delivered pursuant hereto) shall prove to have been incorrect in any material respect when made or deemed made; or

(c) The Borrower shall fail to perform any term, covenant or agreement contained in Section 5.01(a)(iv), 5.01(f) or 5.02 on its part to be performed or observed; or

(d) The Borrower shall fail to perform any term, covenant or agreement contained in this Agreement (except those described in clauses (a) and (c) above) and such failure shall continue for 30 days; or

(e) A court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower or any of its Principal Subsidiaries in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the Borrower or such Principal Subsidiary or for any substantial part of its property, or ordering the winding up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of 30 consecutive days; or

(f) The Borrower or any of its Principal Subsidiaries shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of any order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Borrower or such Principal Subsidiary or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action in furtherance of any of the foregoing; or

(g) (A) The Borrower shall fail to make any payment in respect of Indebtedness when due (whether by scheduled maturity, required prepayment, acceleration or otherwise) if the aggregate amount of such payment is \$5,000,000 or more, or (B) any breach, default or event of default shall occur and be continuing (and applicable grace and notice periods shall have expired) under any agreement or indenture relating to any Indebtedness in an aggregate amount of \$5,000,000 or more, and, except in the case of financial covenant defaults, the maturity of any such Indebtedness has been accelerated in accordance with the terms thereof; or

(h) (A) Any Termination Event shall occur, or (B) any Plan shall incur an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived, or (C) the Borrower or any member of its ERISA Controlled Group shall fail to pay when due an amount which it shall have become liable to pay to the PBGC, any Plan or a trust established under Title IV of ERISA, or (D) a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that an ERISA Plan must be terminated or have a trustee appointed to administer any ERISA Plan, or (E) the Borrower or a member of its ERISA Controlled Group suffers a partial or complete withdrawal from a Multiemployer Plan or is in "default" (as defined in Section 4219(c)(5) of ERISA) with respect to payments to a Multiemployer Plan, or (F) a proceeding shall be instituted against the Borrower or any member of its ERISA Controlled Group to enforce Section 515 of ERISA, or (G) any other event or condition shall occur or exist with respect to any Plan, if such events, transactions or conditions set forth in clauses (A) through (G) above could singly or in the aggregate be reasonably expected to have a Material Adverse Effect; or

(i) If there shall remain in force, undischarged, unsatisfied and unstayed, for more than 30 days, whether or not consecutive, any final judgment against the Borrower or any of its Principal Subsidiaries which, when added to any other outstanding final judgments which remain undischarged, unsatisfied and unstayed for more than 30 days against the Borrower or any such Principal Subsidiary, exceeds \$5,000,000;

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the obligation of each Lender to make Advances to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare all Advances, the Notes, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon all Advances, the Notes, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however that in the case of any of the Events of Default specified in clauses (e) or (f) above with respect to the Borrower, (A) the obligation of each Lender to make Advances shall automatically be terminated and (B) the Advances, the Notes, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

#### ARTICLE VII

##### THE AGENT

SECTION 7.01. Authorization and Action. Each Lender hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and

discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; provided, however, that the Agent shall not be required to take any action that exposes the Agent to personal liability or that is contrary to this Agreement or applicable law. The Agent agrees to give to each Lender prompt notice of each notice given to it by the Borrower pursuant to the terms of this Agreement.

SECTION 7.02. Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may treat the payee of any Note as the holder thereof until the Agent receives and accepts an Assignment and Acceptance entered into by the Lender that is the payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in Section 8.07; (ii) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement on the part of the Borrower or to inspect the property (including the books and records) of the Borrower; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 7.03. Citibank and Affiliates. With respect to its Commitment, the Advances made by it and the Note or Notes issued to it, Citibank shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include Citibank in its individual capacity. Citibank and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Borrower, any of its Subsidiaries and any Person who may do business with or own securities of the Borrower or any such Subsidiary, all as if Citibank were not the Agent and without any duty to account therefor to the Lenders.

SECTION 7.04. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05. Indemnification. The Lenders agree to indemnify the Agent (to the extent not reimbursed by the Borrower), ratably according to the respective principal amounts of the Committed Notes then held by each of them (or if no Committed Notes are at the time outstanding or if any Committed Notes are held by Persons that are not Lenders, ratably according to the respective amounts of their Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Agent under this Agreement, provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by the Borrower.

SECTION 7.06. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Agent, which shall be (i) a Lender or (ii) if no Lender shall accept appointment as the Agent within 30 days after such resignation or removal, any other Person, which Person, so long as no Default shall have occurred and be continuing, shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be (i) a Lender or (ii) any other Person, which Person, so long as no Default shall have occurred and be continuing, shall be reasonably acceptable to the Borrower. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this

Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Notes, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Borrower and the Required Lenders, or in the case of Section 2.13 and any Uncommitted Note, the Borrower and the Lender to which such Note is payable, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, that the written consent of the Borrower and all the Lenders shall be required in order to amend or waive any provision of the Agreement or the Notes other than Section 2.13 and the Uncommitted Notes which would have the effect of (a) a reduction in principal, interest or fees payable to the Lenders under this Agreement or the Committed Notes, (b) the postponement of any date fixed for the payment of any principal, interest or fees under this Agreement or the Committed Notes, (c) an increase in the Commitments, (d) amending or waiving compliance with the last sentence of Section 2.01(a), Section 2.08, Section 8.05 or this Section 8.01, or (e) amending the definition of Required Lenders; and provided further that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Agent under this Agreement or any Note.

SECTION 8.02. Notices, etc. All notices and other communications provided for hereunder shall be in writing (including telecopier or telex communication) and mailed, telecopied, telexed or delivered, if to the Borrower, at its address at 1000 Stanley Drive, New Britain, Connecticut 06050, Attention: Secretary, telecopy no. 2038273911, with a copy to Craig A. Douglas, Director, Corporate Finance, at the same address and telecopy no. 2038273848; if to any Initial Lender, at its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Agent, at its address at 7th Floor, Zone 1, One Court Square, Long Island City, New York 11120, Attention: Loan Investor Services Department; or, as to the Borrower or the 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 Agent. All such notices and communications shall, when telecopied or telexed, be effective when telecopied (with receipt confirmed by telephone) or confirmed by telex answerback, respectively, and when mailed or delivered, when received, except that notices and communications to the Agent pursuant to Article II, III or VII shall not be effective until received by the Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

SECTION 8.03. No Waiver; Remedies. No failure on the part of any Lender or the Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04. Costs and Expenses; Breakage Indemnification.

(a) The Borrower agrees to pay on demand all reasonable costs and expenses, if any (including, without limitation, counsel fees and expenses reasonably incurred), of the Agent and each Lender in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, reasonable counsel fees and expenses in connection with the enforcement of rights under this Section 8.04(a).

(b) If any payment, prepayment or conversion of any Eurodollar Rate Advance or a Fixed Rate Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a result of acceleration of the maturity of the Advances and the Notes pursuant to Section 6.01 or for any other reason other than in connection with Section 2.02(c), the Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses which it may reasonably incur as a result of such payment, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund or maintain such Advance.

(c) The Borrower agrees to indemnify and hold harmless the Agent and each Lender and each of their affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of, or in connection with the preparation for a defense of, any investigation, litigation or proceeding arising out of, related to or in connection with the actual or proposed use of the proceeds of the Advances in connection with any acquisition or proposed acquisition by the Borrower or any Subsidiary of the Borrower of another Person or one or more businesses of another Person (whether by means of a stock purchase, asset acquisition or otherwise), whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated, except to the extent such claim, damage, loss, liability or expense is found in a final, nonappealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

SECTION 8.05. Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of setoff, or otherwise) on account of the Committed Advances owing to it (other than pursuant to

Section 2.02(d), 2.06, 2.08, 2.10 or 8.04(b)) in excess of its ratable share of payments on account of the Committed Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Committed Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 8.05 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

SECTION 8.06. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Borrower, the Agent and the Lenders and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights or obligations hereunder or under any Note or any interest herein or therein (other than as permitted by Section 5.02(b)) without the prior written consent of the Lenders.

SECTION 8.07. Assignments and Participations. (a) Each Lender may assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Committed Advances owing to it and the Committed Note or Notes held by it); provided, however, that (i) each such assignment (other than assignment to an affiliate of such Lender) shall require the prior written consent of the Borrower, which consent shall not be unreasonably withheld, (ii) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement (other than any right to make Uncommitted Advances, Uncommitted Advances owing to it and Uncommitted Notes), (iii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or an assignment of all of a Lender's rights and obligations under this Agreement, the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, and (iv) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance (which shall include the agreement of the assignee party to such assignment, for the benefit of the Borrower, to be bound by the terms and provisions of this Agreement to the same extent as if it were an original party hereto), together with any Committed Note subject to such assignment and a processing and recordation fee of \$3,000. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and

Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vi) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(c) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Committed Note or Notes subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit I hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Agent in exchange for the surrendered Committed Note a new Committed Note to the order of such Eligible Assignee in an amount equal to the Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Lender has retained a Commitment hereunder, a new Committed Note to the order of the assigning Lender in an amount equal to the Commitment retained by it hereunder. Such new Committed Note or Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Committed Note or Notes, shall be dated the effective date of such Assignment and

Acceptance and shall otherwise be in substantially the form of Exhibit A hereto. Such Assignment and Acceptance shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Person as a Lender and the resulting adjustment of the Commitments, if any, arising from such assignment of Commitments to such Person.

(d) The Agent shall maintain at its address referred to in Section 8.02 a copy of each Assignment and Acceptance or New Commitment Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Each Lender may sell participations to one or more banks or other financial institutions in all or a portion of its rights and/or obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and the Note or Notes held by it); provided that (i) such Lender's obligations under this Agreement (including, without limitation, its Commitment) shall remain unchanged, (ii) such Lender shall remain solely responsible to the Borrower for the performance of such obligations, (iii) the Borrower shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (iv) such participant's right to consent to any modification, waiver or release of any of the provisions of this Agreement shall be limited to the right to consent to (A) any reduction in principal, interest or fees payable to such Lender under this Agreement, (B) the postponement of any date fixed for the payment of any principal, interest or fees under this Agreement and (C) increase in the Commitment, and (D) any amendments to the foregoing clauses (A), (B) and (C).

(f) Each New Lender shall submit a New Commitment Acceptance in accordance with the provisions of Section 2.01(c). Upon the execution, delivery, acceptance and recording of a New Commitment Acceptance, from and after the Increase Date related thereto such New Lender shall be a party hereto and have the rights and obligations of a Lender hereunder having the Commitment specified therein (or such lesser Commitment as shall be allocated to such New Lender in accordance with Section 2.01(c)). By executing and delivering a New Commitment Acceptance, the New Lender thereunder confirms to and agrees with the other parties hereto as follows: (i) such New Lender hereby agrees that no Lender has made any representation or warranty, or assumes any responsibility, with respect to (x) any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto or (y) the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant

hereto; (ii) such New Lender confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 5.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such New Commitment Acceptance; (iii) such New Lender will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (iv) such New Lender appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (v) such New Lender agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

SECTION 8.08. Limitation on Assignments and Participations.

(a) Any Lender may, in connection with any actual or proposed assignment or participation pursuant to Section 8.07, disclose to the actual or proposed assignee or participant any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that the actual or proposed assignee or participant shall have agreed prior to any such disclosure to preserve the confidentiality of any confidential information relating to the Borrower received by it from such Lender or the Borrower.

(b) Notwithstanding anything in Section 8.07 to the contrary, no Lender shall have the right to assign its rights and obligations hereunder or any interest therein or to sell participations to one or more banks or other financial institutions in all or a portion of its rights hereunder or any interest therein where the result of such assignment or participation would be reasonably expected to entitle the Lender to claim additional amounts pursuant to Section 2.02(d), 2.06, 2.08, 2.10, 2.13(f) or 8.04 or would otherwise result in an increase in the Borrower's obligations.

(c) Anything in this Section 8.08 to the contrary notwithstanding, any Lender may assign and pledge all or any portion of its rights to payment of the Advances owing to it hereunder to any Federal Reserve Bank (and its transferees) as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any applicable Operating Circular issued by such Federal Reserve Bank. No such assignment shall have the effect of releasing such Lender from its obligations hereunder.

SECTION 8.09. Withholding. If any Lender, or any Person that becomes a party to this Agreement pursuant to Section 8.07, is not incorporated under the laws of the United States of America or a state thereof, such Person agrees that, prior to the first date on which any payment is due to it hereunder, it will deliver to each of the Borrower and the Agent (i) two duly completed copies of United States Internal Revenue Service Form 1001 or 4224 or successor applicable form, as the case may be, certifying in each case that such Person is entitled to receive payments under this Agreement and the Note or Notes payable to it, without deduction or withholding of any United States federal income taxes, and (ii) an Internal Revenue Service Form W-8 or W-9 or successor applicable form, as the case may be,

to establish an exemption from United States backup withholding tax. Each Person which delivers to the Borrower a Form 1001 or 4224 and Form W-8 or W-9 pursuant to the preceding sentence further undertakes to deliver to each of the Borrower and the Agent two further copies of Form 1001 or 4224 and Form W-8 or W-9, or successor applicable forms, or other manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower and the Agent, and such extensions or renewals thereof as may reasonably be requested by the Borrower or the Agent, certifying in the case of a Form 1001 or 4224 that such Person is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Person from duly completing and delivering any such form with respect to it and such Person advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax, and in the case of a Form W-8 or W-9, establishing an exemption from United States backup withholding tax.

SECTION 8.10. Mitigation. In the event that any Lender claims any amounts under Sections 2.02(d), 2.06, 2.08, 2.10 or 8.04(b), it shall use all reasonable efforts (consistent with its internal policies and legal and regulatory restrictions) to take actions (including, without limitation, changing the jurisdiction of its Applicable Lending Office) so as to eliminate such additional amounts; provided that such Lender shall not be required to take any action if, in its reasonable judgment, such action would be materially disadvantageous to it.

SECTION 8.11. Governing Law; Waiver of Jury Trial. THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 8.12. Execution in Counterparts. This Agreement may be executed in any number of counterparts each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 8.13. Submission to Jurisdiction. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or any Note. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or



\$22,500,000

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

By Carolyn A. Kee  
-----  
Name: Carolyn A. Kee  
Title: As-Attorney-In-Fact

INITIAL LENDERS

\$17,500,000

WACHOVIA BANK OF GEORGIA, N.A.

By Terence A. Snellings  
-----  
Name: Terence A. Snellings  
Title: Senior Vice President

\$17,500,000

BANQUE NATIONALE DE PARIS

By Sophie Revillard Kaufman  
-----  
Name: Sophie Revillard Kaufman  
Title: Vice President

By Gwen Abbott  
-----  
Name: Gwen Abbott  
Title: Assistant Vice President

\$10,000,000

BARCLAYS BANK PLC

By Gary Albanese  
-----  
Name: Gary Albanese  
Title: Associate Director

\$17,500,000

FLEET NATIONAL BANK

By Paul A. Veiga

-----  
Name: Paul A. Veiga  
Title: Vice President

\$17,500,000

ROYAL BANK OF CANADA  
NEW YORK BRANCH

By Preston D. Jones

-----  
Name: Preston D. Jones  
Title: Senior Manager, Corporate Banking

\$17,500,000

MELLON BANK, N.A.

By John Paul Marotta

-----  
Name: John Paul Marotta  
Title: Assistant Vice President

\$17,500,000

MORGAN GUARANTY TRUST COMPANY OF  
NEW YORK

By James E. Condon

-----  
Name: James E. Condon  
Title: Vice President

\$12,500,000

STATE STREET BANK & TRUST CO.

By F. Andrew Beise

-----  
Name: F. Andrew Beise  
Title: Vice President

SCHEDULE I

ADDRESS AND APPLICABLE LENDING OFFICES

| Name of Lenders<br>and Addresses<br>For Notices  | Domestic<br>Lending<br>Office   | Eurodollar<br>Lending<br>Office  |
|--|---|--|
| Citibank, N.A.<br>7th Floor, Zone 1<br>One Court Square<br>Long Island City, N.Y. 11120<br><br>Telecopy: 212-793-7712<br>Telephone: 212-559-7241/212-559-4424<br>Attn: Paolo de Alessandrini/<br>Aaron Kim | Citibank, N.A.<br>7th Floor, Zone 1<br>One Court Square<br>Long Island City, N.Y. 11120 | Citibank, N.A.<br>7th Floor, Zone 1<br>One Court Square<br>Long Island City, N.Y. 11120  |
| Banque Nationale<br>de Paris<br>499 Park Avenue<br>New York, N.Y. 10022<br>Telecopy: 212-415-9606<br>Telephone: 212-415-9601<br>Attn: Ms. Sophie Kaufman   | BNP New York<br>499 Park Avenue<br>New York, N.Y. 10022                                 | BNP Georgetown<br>499 Park Avenue<br>New York, N.Y. 10022<br>Telecopy: 212-415-9606<br>Telephone: 212-415-9601<br>Attn: Ms. Sophie Kaufman |

|  |   |   |
|--|---|---|
| Morgan Guaranty<br>Trust Company of<br>New York<br>60 Wall Street<br>New York, N.Y. 10260<br>Telecopy: 212-648-5019<br>Phone: 212-648-7738<br>Attn: James Condon | Loan Department<br>60 Wall Street<br>New York, New York 10260 | c/o J.P. Morgan<br>Services, Inc.<br>EuroLoan Servicing Unit<br>902 Market Street<br>Wilmington, DE 19801 |
|--|---|---|

| Name of Lenders<br>and Addresses<br>For Notices | Domestic<br>Lending<br>Office | Eurodollar<br>Lending<br>Office |
|---|-------------------------------|---------------------------------|
|---|-------------------------------|---------------------------------|

|   |   |   |
|---|---|---|
| State Street Bank & Trust Co.<br>225 Franklin Street<br>Boston, MA 02110-2804<br>Attn: Mr. F. Andrew Beise<br>Telecopy: 617-654-4176<br>Phone: 617-654-3120 | State Street Bank & Trust Co.<br>225 Franklin Street<br>Boston, MA 02110-2804<br>Attn: Mr. F. Andrew Beise<br>Telecopy: 617-654-4176<br>Phone: 617-654-3120 | State Street Bank & Trust Co. 225<br>225 Franklin Street<br>Boston, MA 02110-2804<br>Attn: Mr. F. Andrew Beise<br>Telecopy: 617-654-4176<br>Phone: 617-654-3120 |
|---|---|---|

|   |   |   |
|---|---|---|
| Royal Bank of Canada<br>New York Branch<br>One Financial Square<br>23rd Floor<br>New York, New York<br>10005-3531<br>Telecopy: (212) 428-2372<br>Telephone: (212) 428-6311<br>Attn: Manager, Credit<br>Administration | Royal Bank of Canada<br>New York Branch<br>One Financial Square<br>23rd Floor<br>New York, New York<br>10005-3531 | Royal Bank of Canada<br>New York Branch<br>One Financial Square<br>23rd Floor<br>New York, New York<br>10005-3531 |
|---|---|---|

=====  
Copy to:  
Royal Bank of Canada  
One Financial Square, 24th Floor  
New York, New York  
10005-3531  
Attn: Sheryl L. Greenberg  
Manager  
Telecopy: (212) 428-6459  
Telephone: (212) 428-6476  
=====

SCHEDULE I-3

| Name of Lenders<br>and Addresses<br>For Notices   | Domestic<br>Lending<br>Office  | Eurodollar<br>Lending<br>Office  |
|---|--|--|
| Wachovia Bank of<br>Georgia, N.A.<br>191 Peachtree St., NE<br>Atlanta, GA 30303<br>Telecopy: 404-332-6898<br>Telephone: 404-332-1090<br>Attn: Terrence Snellings<br>MC370 | Wachovia Bank of<br>Georgia, N.A.<br>191 Peachtree St.,NE<br>Atlanta, GA 30303<br>Telecopy: 404-332-6898<br>Telephone: 404-332-1090<br>Attn: Terrence Snellings<br>MC370 | Wachovia Bank of<br>Georgia, N.A.<br>191 Peachtree St.,NE<br>Atlanta, GA 30303<br>Telecopy: 404-332-6898<br>Telephone: 404-332-1090<br>Attn: Terrence Snellings<br>MC370 |

SCHEDULE I-4

Name of Lenders  
And Addresses  
For Notices

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  
222 Broadway  
New York, New York 10038

Contact:  
Terrence Bullock  
Tel. No.: (212) 412-2554

Domestic  
Lending Office

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

Contacts:  
Kevin Jones  
212-412-5022

Eurodollar  
Lending Office

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

Contacts:  
Tanya Bond  
171-621-4599

Uncommitted  
Lending Office

Barclays Bank PLC  
8th Floor  
222 Broadway  
New York, N.Y. 10038

Ref: Stanley Works  
Uncommitted Bid Option

Contacts:  
Tom Connolly  
Greg Hurley  
212-412-2091  
Telecopy:

| Name of Lenders<br>and Addresses<br>For Notices                            | Domestic<br>Lending<br>Office  | Eurodollar<br>Lending<br>Office  |
|--|--|--|
| Mellon Bank, N.A.<br>Three Mellon Center<br>Pittsburgh, PA<br>15259-0001   | Mellon Bank, N.A.<br>Three Mellon Center<br>Pittsburgh, PA<br>15259-0001   | Mellon Bank, N.A.<br>Three Mellon Center<br>Pittsburgh, Pa.<br>15259-0001  |
| Telecopy: 412-236-2027<br>Telephone: 412-234-8347<br>Attn: Rhonda Ashbaugh | Mellon Financial Services<br>65 East 55th Street<br>New York, NY 10260<br>Telecopy: 212-702-5269<br>Telephone: 212-702-4029<br>Attn: John Paul Marotta | Telecopy: 412-236-2027<br>Telephone: 412-234-8347<br>Attn: Rhonda Ashbaugh |
| Fleet National Bank<br>777 Main Street<br>Hartford, Ct.<br>06115           | Fleet National Bank<br>777 Main Street<br>Hartford, Ct.<br>06115   | Fleet National Bank<br>777 Main Street<br>Hartford, Ct.<br>06115           |
| Telecopy: 860-986-9378<br>Telephone: 860-986-4426<br>Attn: Paul Veiga      | Telecopy: 860-986-9378<br>Telephone: 860-986-7098<br>Attn: Zoraida Sanchez   | Telecopy: 860-986-9378<br>Telephone: 860-986-7098<br>Attn: Zoraida Sanchez |

SCHEDULE I-6

EXHIBIT A  
PROMISSORY NOTE  
(Committed Advances)

\$

Dated:

FOR VALUE RECEIVED, the undersigned, The Stanley Works, a Connecticut corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of [NAME OF LENDER] (the "Lender") the principal sum of \$ or, if less, the aggregate principal amount of all Committed Advances made by the Lender to the Borrower pursuant to the Credit Agreement referred to below outstanding on the Termination Date, and such amount shall be paid on or prior to the Termination Date as provided in the Credit Agreement referred to below or, in the event of an election pursuant to Section 2.07(c) of said Credit Agreement, on the Term Date as provided therein.

Capitalized terms used herein and not defined herein shall have the meanings provided in the Credit Agreement referred to below.

The Borrower promises to pay interest on the principal amount of each Committed Advance from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement referred to below.

Both principal and interest are payable in lawful money of the United States of America to Citibank, N.A., as Agent, at 399 Park Avenue, New York, New York 10043 in same day funds. Each Committed Advance made by the Lender to the Borrower and the maturity thereof, and all payments made on account of the principal amount thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is a part of this Promissory Note, which recordation shall be conclusive and binding absent manifest error but the failure to make such recording shall not have any effect on the Lender's rights hereunder.

This Promissory Note is one of the Committed Notes referred to in, and is entitled to the benefits of, the Facility A (364 Day) Credit Agreement dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement"), among the Borrower, the Lender and certain other lenders parties thereto, and Citibank, N.A., as Agent for the Lender and such other lenders. The Credit Agreement,

among other things, (i) provides for the making of Committed Advances by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Committed Advance being evidenced by this Promissory Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

THE STANLEY WORKS

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:



EXHIBIT B-1

RATE REQUEST

Citibank, N.A., as Reference Bank  
under the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

[Date]

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the Facility A (364 Day) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined) among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders and hereby requests notification from you pursuant to Section 2.02(a) thereof of the Eurodollar Rate which is applicable to the Committed Advance to be made (or converted or continued) on , 19 in the principal amount of \$ with the Interest Period of months.

Very truly yours,

The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

TO BE COMPLETED AND RETURNED BY  
REFERENCE BANK:

The rate requested above, determined as required by the Credit Agreement, is .

CITIBANK, N.A., as Reference Bank

By \_\_\_\_\_  
Authorized Officer

B1-2

EXHIBIT B-2

NOTICE OF BORROWING

Citibank, N.A., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

[Date]

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the Facility A (364 Day) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Committed Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Committed Borrowing (the "Proposed Committed Borrowing ") as required by Section 2.02(b) of the Credit Agreement:

(i) The Business Day of the Proposed Committed Borrowing  
is , 19 .

(ii) The Type of Advances comprising the Proposed  
Committed Borrowing is [Base Rate] [Eurodollar Rate].

(iii) The aggregate amount of the Proposed Committed  
Borrowing is \$ .

[(iv)] The Initial Interest Period for each Eurodollar Rate  
Advance made as part of the Proposed Committed Borrowing  
is month[s]].

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Committed Borrowing:

(A) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct in all material respects, before and after giving effect to the Proposed Committed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date; and

(B) no event has occurred and is continuing, or would result from such Proposed Committed Borrowing or from the application of the proceeds therefrom, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

The Borrower's account information for funding purposes is Account No. 36852248, Citibank, N.A., ABA No. 021000089, Long Island City, New York, Ref. .

Very truly yours,

The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

EXHIBIT B-3

NOTICE OF INCREASE

Citibank, N.A., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

[Date]

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the Facility A (364 Day) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.01(c) of the Credit Agreement, that the undersigned requests an increase in the aggregate amount of the Commitments as follows:

Increase Date: \_\_\_\_\_

Proposed Aggregate  
Commitment Increase: \_\_\_\_\_

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the Increase Date:

(A) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct in all material respects as though made on and as of such date; and

(B) no event has occurred and is continuing which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

Very truly yours,

The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

B3-2

EXHIBIT B-4

NOTICE OF EXTENSION

Citibank, N.A., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

[Date]

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the Facility A (364 Day) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.07(c) of the Credit Agreement that the undersigned hereby elects that the maturity of all Committed Advances outstanding as of the close of business New York time on the day immediately preceding the Termination Date be extended to the Term Date.

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the Termination Date:

(A) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct in all material respects as though made on and as of such date; and

(B) no event has occurred and is continuing which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

Very truly yours,

The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

B4-2

EXHIBIT C

NOTICE OF CONVERSION OR CONTINUATION

[Date]

Citibank, N.A., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the Facility A (364 Day) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders, and hereby gives you notice, pursuant to Section 2.04(b) of the Credit Agreement that the undersigned hereby elects to [convert][continue] the Committed Borrowing consisting of [Base Rate][Eurodollar Rate] Advances:

(i) which is in the amount of \$ ;

(ii) which, in the case of a Committed Borrowing consisting of Eurodollar Rate Advances, has an Interest Period of month(s);(1) and

(iii) which was borrowed (or previously converted or continued) on \_\_\_\_\_, 199\_.

- -----

(1) Omit clause (ii) if Committed Borrowing consisted of Base Rate Advances.

Such [conversion][continuation] shall become effective on ,  
199 , at which time such Advances shall be [converted into][continued as] [Base  
Rate][Eurodollar Rate] Advances:

- (i) which is in the amount of \$ ; (2) and
- (ii) which has an Interest Period of month(s) (3).

Very truly yours,  
The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

- 
- (2) Omit clause (i) if conversion or continuation is for entire amount of Committed Borrowing.
  - (3) Omit clause (ii) if conversion is into Base Rate Advance.

EXHIBIT D

PROMISSORY NOTE  
(Uncommitted Advances)

\$150,000,000

Dated:

FOR VALUE RECEIVED, the undersigned, The Stanley Works, a Connecticut corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of [NAME OF LENDER] (the "Lender") the aggregate principal amount of all Uncommitted Advances made by the Lender to the Borrower pursuant to the Credit Agreement referred to below and such amount shall be paid in the amounts and on the dates provided in the Credit Agreement referred to below.

Capitalized terms used herein and not defined herein shall have the meanings provided in the Credit Agreement referred to below.

The Borrower promises to pay interest on the principal amount of each Uncommitted Advance from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement referred to below.

Both principal and interest are payable in lawful money of the United States of America to Citibank, N.A., as Agent, for the account of the Lender, at 399 Park Avenue, New York, New York 10043 in same day funds. Each Uncommitted Advance made by the Lender to the Borrower and the maturity thereof, and all payments made on account of the principal amount thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is a part of this Promissory Note, which recordation shall be conclusive and binding absent manifest error but the failure to make such recording shall not have any effect on the Lender's rights hereunder.

This Promissory Note is one of the Uncommitted Notes referred to in, and is entitled to the benefits of, the Facility A (364 Day) Credit Agreement dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement"), among the Borrower, the Lender and certain other lenders parties thereto, and Citibank, N.A., as Agent for the Lender and such other Lenders. The Credit Agreement, among other things, (i) provides for the making of Uncommitted Advances by the Lender to the Borrower from time to time, the indebtedness of the Borrower resulting from each such Uncommitted Advance being evidenced by this Promissory Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for

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prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

THE STANLEY WORKS

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:

D-2



EXHIBIT E

FORM OF QUOTE REQUEST

[Date]

Citibank, N.A., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the Facility A (364 Day) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders, and hereby gives you notice pursuant to Section 2.13 of the Credit Agreement that the undersigned hereby requests offers to make an Uncommitted Borrowing under the Credit Agreement, and in that connection sets forth the terms on which such Borrowing (the "Proposed Uncommitted Borrowing") is requested to be made (4):

(i) The Business Day of the Proposed Uncommitted Borrowing  
is \_\_\_\_\_, 19 \_\_\_\_ .

(ii) The proposed aggregate amount of the Proposed Uncommitted  
Borrowing is \$\_\_\_\_\_ .

-----  
4 Information required for a Borrowing may be repeated as necessary if  
more than one Borrowing is being requested in one Form of Quote  
Request.

(iii) The duration of the proposed Interest Period for the Proposed Uncommitted Borrowing is .

(iv) The Type of Proposed Uncommitted Borrowing is [Fixed Rate] [Floating Rate].

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Uncommitted Borrowing:

(A) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct in all material respects, before and after giving effect to the Proposed Uncommitted Borrowing on the same day and to the application of the proceeds therefrom, as though made on and as of such date; and

(B) no event has occurred and is continuing, or would result from such Proposed Uncommitted Borrowing or from the application of the proceeds therefrom, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

Very truly yours,

The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

EXHIBIT F

FORM OF QUOTE

[Date]

THE STANLEY WORKS  
1000 Stanley Drive  
New Britain, CT 06050

Re: Facility A (364 Day) Credit Agreement dated as of October 23, 1996  
among The Stanley Works, certain Lenders parties thereto, and  
Citibank, N.A., as Agent for said Lenders (as amended, modified or  
supplemented from time to time, the "Credit Agreement")

Ladies and Gentlemen:

The undersigned, [Name of Lender], refers to the above  
referenced Credit Agreement. Capitalized terms used herein and not otherwise  
defined herein shall have the meanings assigned to such terms in the Credit  
Agreement. The undersigned hereby makes [a] Quote[s] pursuant to Section 2.13  
of the Credit Agreement, in response to the Quote Request made by the Borrower  
on , 19 , and in response thereto, sets forth below the terms on which such  
Quote[s] [is] [are] made:

(i) The principal amount of the Uncommitted Advance  
is \$ .

(ii) The Type of Uncommitted Advance is [Fixed Rate] [Floating  
Rate].

(iii) The Floating Rate Margin in the case of a Floating Rate  
Advance, or the Fixed Rate in the case of a Fixed Rate Advance,  
is .(5)

-----  
(5) Clauses (i) through (iii) should be repeated as to each additional offer being made.

The undersigned hereby confirms that it is prepared, subject to the conditions set forth in the Credit Agreement, to extend credit to the Borrower upon acceptance by the Borrower of this Quote in accordance with Section 2.13(d) of the Credit Agreement.

Very truly yours,

[NAME OF LENDER]

By \_\_\_\_\_  
Name:  
Title:

EXHIBIT G  
FORM OF ACCEPTANCE

[Date]

Citibank, N.A., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

Re: Facility A (364 Day) Credit Agreement, dated as of October 23, 1996  
(as amended, modified or supplemented from time to time, the "Credit  
Agreement") among the undersigned, certain Lenders parties thereto,  
and Citibank, N.A., as Agent for said Lenders

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the above  
referenced Credit Agreement. Capitalized terms used herein and not otherwise  
defined herein shall have the meanings assigned to such terms in the Credit  
Agreement. In accordance with Section 2.13 of the Credit Agreements, we have  
received [a] Quote/Quotes in connection with our Quote Request, dated , for  
[an] Uncommitted Borrowing[s] to occur on , and in accordance with Section  
2.13(d) of the Credit Agreement, we hereby accept the following offer/offers  
for the Interest Period of [ ]:

| Principal Amount | Fixed Rate/Floating Rate | Lender |
|------------------|--------------------------|--------|
|------------------|--------------------------|--------|

The Borrower's account information for funding purposes is Account No.  
36852248, Citibank, N.A., ABA No. 021000089, Long Island City, New York, Ref.\_\_\_\_\_.

Very truly yours,

The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

G-2

EXHIBIT H

FORM OF OPINION OF GENERAL COUNSEL

[Date]

To each of the Lenders parties  
to the Credit Agreement referred  
to below and to  
Citibank, N.A., as Agent  
for said Lenders

Ladies and Gentlemen:

I am the General Counsel of The Stanley Works, a Connecticut corporation (the "Borrower"), and have acted as counsel to the Borrower in connection with the Facility A (364 Day) Credit Agreement, dated as of October 23, 1996 (the "Credit Agreement"), among the Borrower, certain Lenders parties thereto (the "Lenders"), and Citibank, N.A., as Agent for said Lenders.

This opinion is being delivered to you pursuant to Section 3.01(d) of the Credit Agreement. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

In rendering the opinions set forth herein, I have examined and relied on originals or copies of the following:

- (a) a counterpart executed by the Borrower of the Credit Agreement;
- (b) each of the executed Notes and each of the executed Uncommitted Notes;
- (c) copies of the Certificate of Incorporation and Bylaws of the Borrower;
- (d) a certified copy of certain resolutions of the Board of Directors of the Borrower;
- (e) certificates from public officials in the State of Connecticut as to the good standing of the Borrower in the State of Connecticut; and

(f) such other documents as I have deemed necessary or appropriate as a basis for the opinions set forth below.

In my examination, I have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to me as originals, the conformity to original documents of all documents submitted to me as certified or photostatic copies, and the authenticity of the originals of such copies. As to any facts material to this opinion which I did not independently establish or verify, I have relied upon written statements and certificates of the Borrower and its officers and other representatives and of public officials.

Unless otherwise indicated, references in this opinion to the "Loan Documents" shall mean the documents listed in clauses (a) and (b) above. In addition, references to (i) "Applicable Laws" shall mean the laws and regulations of the States of Connecticut and New York and the United States of America (including, without limitation, Regulations U and X of the Board of Governors of the Federal Reserve System) which are applicable to the transactions contemplated by the Loan Documents; (ii) the term "Governmental Authorities" means any Connecticut, New York and federal executive, legislative, judicial, administrative or regulatory body; (iii) the term "Applicable Contracts" shall mean the agreements and instruments set forth in the index of exhibits to the Borrower's Annual Report on Form 10K for the year ended , 19 filed with the Securities and Exchange Commission and (iv) the term "Governmental Approval" means any consent, approval, license, authorization or validation of, or filing, recording or registration with, any Governmental Authority pursuant to any Applicable Law.

I am admitted to the bar in the States of Connecticut and New York. This opinion is limited to the laws of the State of Connecticut, the State of New York and the United States of America to the extent specified herein.

In rendering this opinion, I have assumed, with your consent, that:

(a) the execution, delivery or performance by the Borrower of the Loan Documents 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 I express my opinion in paragraph 5 herein) or any agreement or instrument to which the Borrower or the Borrower's property is subject (except and to the extent that I express my opinion in paragraph 5 herein);

(b) and 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 I express my opinion in paragraph 6 herein) is required to

authorize or is required in connection with the execution, delivery or performance by the Borrower of any Loan Document or the transactions contemplated thereby.

My opinions are also subject to the following assumptions and qualifications:

(a) the Credit Agreement constitutes the valid and binding obligation of the Lenders and is enforceable against the Lenders in accordance with its terms; and

(b) I express no opinion as to the effect on the opinions herein stated of (i) the compliance or noncompliance of the Lenders with any state, federal or other laws or regulations applicable to the Lenders or (ii) the legal or regulatory status or the nature of the business of the Lenders.

Based upon the foregoing and such investigations that I have deemed necessary, and subject to the limitations, qualifications, exceptions and assumptions set forth herein, I am of the opinion that:

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

2. The Borrower has the corporate power and corporate authority to execute, deliver and perform all of its obligations under the Loan Documents.

3. The execution and delivery of each Loan Document has been duly authorized by all requisite corporate action on the part of the Borrower.

4. Each Loan Document has been duly executed and delivered by the Borrower, constitutes a valid and binding obligation of the Borrower and is enforceable against the Borrower in accordance with its terms, subject to the following qualifications:

(i) enforcement may be limited by applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in equity or at law);

(ii) I express no opinion as to the enforceability of any rights to indemnification provided for in the Loan Documents which may violate the public policy underlying any law, rule or regulation (including any federal or state securities law, rule or regulation); and

(iii) I express no opinion as to the enforceability of Section 8.05 of the Credit Agreement insofar as this provision purports to authorize a Person who has purchased a participation in Advances under the Credit Agreement to set off, appropriate or apply

any deposit or property or indebtedness of the Borrower against any obligation of the Borrower.

5. Neither the execution, delivery or performance by the Borrower of the Loan Documents nor the compliance by the Borrower with the terms and provisions thereof will conflict with, contravene, violate or constitute a default under (i) any provision of any Applicable Contract or, to the best of my knowledge, after due investigation, 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 my knowledge, after due investigation, any judicial or administrative order or decree of any Governmental Authority or (iv) its Certificate of Incorporation and By-laws. As used in this paragraph, "due investigation" means solely that, as to agreements and instruments, I have interviewed the officers of the Borrower responsible for its financing activities, and, as to orders and decrees, I have interviewed the lawyers under my supervision.

6. Based on my review of Applicable Laws, but without my 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 any of the Loan Documents by the Borrower.

7. The Borrower is not required to be registered under the Investment Company Act of 1940, as amended.

This opinion is being furnished only to you and is solely for your benefit in connection with the transactions contemplated by the Loan Documents and is not to be used, circulated, quoted, relied upon or otherwise referred to for any other purpose without my prior written consent.

Very truly yours,

EXHIBIT I  
ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of October 23, 1996 (as amended or modified from time to time, the "Credit Agreement") among The Stanley Works, a Connecticut corporation (the "Borrower"), the Lenders (as defined in the Credit Agreement) and Citibank, N.A., as agent for the Lenders (the "Agent"). Terms defined in the Credit Agreement are used herein with the same meaning.

The "Assignor" and the "Assignee" referred to on Schedule I hereto agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement as of the date hereof (other than in respect of Uncommitted Advances and Uncommitted Notes) equal to the percentage interest specified on Schedule 1 hereto of all outstanding rights and obligations under the Credit Agreement (other than in respect of Uncommitted Advances and Uncommitted Notes). After giving effect to such sale and assignment, the Assignee's Commitment and the amount of the Committed Advances owing to the Assignee will be as set forth on Schedule 1 hereto.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto; and (iv) attaches the Committed Note held by the Assignor and requests that the Agent exchange such Committed Note for a new Committed Note payable to the order of the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto or new Committed Notes payable to the order of the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto and the Assignor in an amount equal to the Commitment retained by the Assignor under the Credit Agreement, respectively, as specified on Schedule 1 hereto.

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.01 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will,

independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement as are delegated to the Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the Credit Agreement are required to be performed by it as a Lender; (vi) agrees, for the benefit of the Borrower, that it will be bound by the terms and provisions of the Credit Agreement to the same extent as if it were an original party thereto and (vii) attaches any U.S. Internal Revenue Service forms required under Section 8.09 of the Credit Agreement.

4. Following the execution of this Assignment and Acceptance, it will be delivered to the Agent for acceptance and recording by the Agent. The effective date for this Assignment and Acceptance (the "Effective Date") shall be the date of acceptance hereof by the Agent, unless otherwise specified on Schedule 1 hereto.

5. Upon such acceptance and recording by the Agent, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

6. Upon such acceptance and recording by the Agent, from and after the Effective Date, the Agent shall make all payments under the Credit Agreement and the Committed Notes in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and facility fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and the Committed Notes for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

8. This Assignment and Acceptance may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of Schedule 1 to this Assignment and Acceptance by telecopier shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused Schedule 1 to this Assignment and Acceptance to be executed by their officers thereunto duly authorized as of the date specified thereon.

Schedule 1  
to  
Assignment and Acceptance

Percentage interest assigned: \_\_\_\_\_ %  
Assignee's Commitment: \$ \_\_\_\_\_  
Aggregate outstanding principal amount of Committed Advances assigned: \$ \_\_\_\_\_  
Principal amount of Committed Note payable to Assignee: \$ \_\_\_\_\_  
Principal amount of Committed Note payable to Assignor: \$ \_\_\_\_\_  
Effective Date(6): \_\_\_\_\_, 199\_

[NAME OF ASSIGNOR],  
as Assignor

By \_\_\_\_\_  
Name:  
Title:

Dated: \_\_\_\_\_, 199\_

[NAME OF ASSIGNEE],  
as Assignee

By \_\_\_\_\_  
Name:  
Title:

Dated: \_\_\_\_\_, 199\_

-----  
(6) This date should be no earlier than five Business Days after the delivery of this Assignment and Acceptance to the Agent.

Domestic Lending Office:  
[Address]

Eurodollar Lending Office:  
[Address]

Accepted this \_\_\_\_\_ day  
of \_\_\_\_\_, 199\_

Citibank, N.A., as Agent

By  
Name:  
Title:

[Approved this \_\_\_\_\_ day  
of \_\_\_\_\_, 199\_

The Stanley Works

By  
Name:  
Title:

EXHIBIT J

[FORM OF NEW COMMITMENT ACCEPTANCE]

NEW COMMITMENT ACCEPTANCE

Dated \_\_\_\_\_, 19\_\_

THE STANLEY WORKS

CITIBANK, N.A., as Administrative Agent  
for the Lenders referred to in the Credit Agreement dated as of  
October 23, 1996 among The Stanley Works, the Lenders party thereto,  
and Citibank, N.A., in its capacity as Agent, (as the same may be  
amended from time to time, the "Credit Agreement")

Ladies and Gentlemen:

Unless otherwise indicated in this New Commitment Acceptance (the  
"Acceptance"), the capitalized terms used in this Acceptance shall have the  
meanings given to such terms in the Credit Agreement.

1. [INSERT NAME OF ACCEPTED LENDER] (the "Accepted Lender") agrees to  
become a party to the Credit Agreement and to have the rights and perform the  
obligations of a Lender under the Credit Agreement, and to be bound in all  
respects by the terms of the Credit Agreement.

2. The Accepted Lender hereby agrees to a Commitment of [INSERT AMOUNT  
OF PROPOSED NEW COMMITMENT] (the "Proposed New Commitment").

3. The Accepted Lender (i) agrees that neither the Agent nor any  
Lender has made any representation or warranty, or assumes any responsibility  
with respect to, (x) any statements, warranties or representations made in or  
in connection with the Credit Agreement or the execution, legality, validity,  
enforceability, genuineness, sufficiency or value of the Credit Agreement or  
any other instrument or document furnished pursuant thereto or (y) the  
financial condition of the Borrower or the performance or observance by the  
Borrower of any of its obligations under the Credit Agreement or any other  
instrument or document furnished pursuant thereto; (ii) confirms that it has  
received a copy of the Credit Agreement, together with copies of the financial  
statements referred to in Section 5.01 thereof and such other documents and  
information as it has deemed appropriate to make its own credit analysis and

decision to enter into this Acceptance; (iii) agrees that it will, independently and without reliance upon the Agent or any Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement as are delegated to the Agent and by the terms thereof, together with such powers as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender; (vi) specifies as its Domestic Lending Office (and address for notices) and Eurodollar Lending Office the offices set forth beneath its name on the signature page(s) hereof; and (vii) attaches the declarations, certifications and other documents required under Section 8.09 of the Credit Agreement as to the Accepted Lender's status for purposes of determining exemption from withholding taxes with respect to all payments to be made to the Accepted Lender under the Credit Agreement or to indicate that all such payments are subject to such rates at a rate reduced by an applicable tax treaty.

4. The effective date for this Acceptance shall be the Increase Date related to this Acceptance; provided that this Acceptance has been fully executed and delivered to the Agent for acceptance and recording by the Agent on or prior to such Increase Date.

5. Upon such execution, delivery, acceptance and recording and as of the Increase Date, the Accepted Lender shall be a party to the Credit Agreement with a Commitment equal to the Proposed New Commitment as it may be adjusted or reduced pursuant to Section 2.01(c) of the Credit Agreement and, to the extent provided in this Acceptance, have the rights and obligations of a Lender thereunder.

6. Upon such acceptance and recording, from and after the Increase Date, the Agent shall make all payments under the Credit Agreement in respect of the Proposed New Commitment provided for in this Acceptance (including, without limitation, all payments of principal, interest and commitment fees with respect thereto) to the Accepted Lender.

7. This Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

8. This Acceptance may be signed in any number of counterparts, each of which shall be an original, with the same as if the signatures were upon the same instrument.

ACCEPTED LENDER

[Name of Accepted Lender]

By: \_\_\_\_\_  
Title:

Domestic Lending Office  
(and address for notices):  
[Address]

Eurodollar Lending Office:  
[Address]

This Acceptance is hereby acknowledged and agreed on as of the date set forth above.

THE STANLEY WORKS

By \_\_\_\_\_  
Title:

CITIBANK, N.A.,  
as Agent for the Lenders

By \_\_\_\_\_  
Title:

J-3

AMENDED AND RESTATED  
FACILITY B (FIVE YEAR) CREDIT AGREEMENT

dated as of October 23, 1996

between

THE STANLEY WORKS

as Borrower

and

THE INITIAL LENDERS NAMED HEREIN

as Initial Lenders

and

CITIBANK, N.A.

as Agent

TABLE OF CONTENTS

Page

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS..... 1

SECTION 1.02. Computation of Time Periods..... 12  
SECTION 1.03. Accounting Terms..... 12

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES..... 12

SECTION 2.01. The Commitment..... 12  
SECTION 2.02. Making the Committed Advances..... 13  
SECTION 2.03. Fees..... 16  
SECTION 2.04. Continuation and Conversion..... 16  
SECTION 2.05. Interest on Advances..... 17  
SECTION 2.06. Additional Interest on Eurodollar Rate Advances..... 18  
SECTION 2.07. Repayment and Prepayment of Advances..... 18  
SECTION 2.08. Increased Costs..... 19  
SECTION 2.09. Payments and Computations..... 20  
SECTION 2.10. Taxes..... 21  
SECTION 2.11. Evidence of Debt..... 22  
SECTION 2.12. Use of Proceeds of Advances..... 22  
SECTION 2.13. Uncommitted Advances..... 22

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING..... 26

SECTION 3.01. Condition Precedent to Effectiveness of  
Sections 2.01 and 2.13..... 26  
SECTION 3.02. Conditions Precedent to Each Advance..... 26

ARTICLE IV

REPRESENTATIONS AND WARRANTIES..... 27

SECTION 4.01. Representations and Warranties of the Borrower..... 27

ARTICLE V

COVENANTS OF THE BORROWER..... 29

SECTION 5.01. Affirmative Covenants..... 29

SECTION 5.02. Negative Covenants..... 32

ARTICLE VI

EVENTS OF DEFAULT..... 34

SECTION 6.01. Events of Default..... 34

ARTICLE VII

THE AGENT..... 37

SECTION 7.01. Authorization and Action..... 37

SECTION 7.02. Agent's Reliance, Etc..... 37

SECTION 7.03. Citibank and Affiliates..... 37

SECTION 7.04. Lender Credit Decision..... 38

SECTION 7.05. Indemnification..... 38

SECTION 7.06. Successor Agent..... 38

ARTICLE VIII

MISCELLANEOUS..... 39

SECTION 8.01. Amendments, Etc..... 39

SECTION 8.02. Notices, etc..... 39

SECTION 8.03. No Waiver; Remedies..... 40

SECTION 8.04. Costs and Expenses; Breakage Indemnification..... 40

SECTION 8.05. Sharing of Payments, Etc..... 41

SECTION 8.06. Binding Effect..... 41

SECTION 8.07. Assignments and Participations..... 42

SECTION 8.08. Limitation on Assignments and Participations..... 44

SECTION 8.09. Withholding..... 44

SECTION 8.10. Mitigation..... 45

SECTION 8.11. Governing Law; Waiver of Jury Trial..... 45

|   |    |
|---|----|
| SECTION 8.12. Execution in Counterparts.....  | 45 |
| SECTION 8.13. Submission to Jurisdiction..... | 46 |

SCHEDULE I

ADDRESSES AND APPLICABLE LENDING OFFICES

|             |  |
|-------------|--|
| EXHIBIT A   | FORM OF PROMISSORY NOTE (COMMITTED ADVANCES)   |
| EXHIBIT B-1 | FORM OF RATE REQUEST                           |
| EXHIBIT B-2 | FORM OF NOTICE OF BORROWING                    |
| EXHIBIT C   | FORM OF NOTICE OF CONVERSION OR CONTINUATION   |
| EXHIBIT D   | FORM OF PROMISSORY NOTE (UNCOMMITTED ADVANCES) |
| EXHIBIT E   | FORM OF QUOTE REQUEST                          |
| EXHIBIT F   | FORM OF QUOTE                                  |
| EXHIBIT G   | FORM OF ACCEPTANCE                             |
| EXHIBIT H   | FORM OF OPINION                                |
| EXHIBIT I   | FORM OF ASSIGNMENT AND ACCEPTANCE              |

FACILITY B (FIVE YEAR) CREDIT AGREEMENT

This Facility B (Five Year) Credit Agreement (as amended, supplemented or otherwise modified from time to time, the "Agreement") is made as of this 23rd day of October, 1996 between THE STANLEY WORKS, a Connecticut corporation (the "Borrower"), the banks, financial institutions and other institutional lenders (the "Initial Lenders") listed on the signature pages hereof, and CITIBANK, N.A. ("Citibank"), as agent (the "Agent") for the Lenders (as hereinafter defined).

W I T N E S S E T H

WHEREAS, the Borrower, the Initial Lenders and the Agent are parties to a Credit Agreement dated as of October 25, 1995 (the "Existing Credit Agreement") and propose to amend and restate the Existing Credit Agreement as hereinafter provided.

NOW, THEREFORE, in consideration of the foregoing and the mutual promises and covenants contained herein, the Borrower, the Agent and the Initial Lenders hereby agree that effective on the Effective Date the Existing Credit Agreement shall be amended and restated in its entirety to read as hereinafter set forth:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Acquiring Person" means any person (other than the ESOP) who is or becomes the beneficial owner, directly or indirectly, of 10% or more of the Borrower's outstanding common stock.

"Advance" means a Committed Advance or an Uncommitted Advance.

"Agent's Account" means the account of the Agent maintained by the Agent at Citibank with its office at 7th Floor, Zone 1, One Court Square, Long Island City, New York 11120, Account No. 36852248, Attention: Mr. John Makrinos.

"Applicable Eurodollar Margin" means with respect to any Interest Period for each Eurodollar Rate Advance, (i) .1800% if on the date such Eurodollar Rate Advance is made the Borrower's outstanding Long-Term Indebtedness is rated BBB+ or higher by Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. ("Standard & Poor's") and Baal or higher by Moody's Investors Service, Inc. ("Moody's"), (ii) .2000% if on the date such Eurodollar Rate

Advance is made clause (i) is inapplicable and the Borrower's outstanding Long-Term Indebtedness is rated BBB or higher by Standard & Poor's and Baa2 or higher by Moody's and (iii) .2250% if on the date such Eurodollar Rate Advance is made clauses (i) and (ii) are inapplicable (including if such Long-Term Indebtedness is no longer rated by either agency).

"Applicable Facility Fee Rate" means as of any date of payment of the fee required by Section 2.03 (i) a rate per annum equal to .0700% if on such date the Borrower's outstanding Long-Term Indebtedness is rated BBB+ or higher by Standard & Poor's and Baa1 or higher by Moody's, (ii) a rate per annum equal to .1000% if on such date clause (i) is inapplicable and the Borrower's outstanding Long-Term Indebtedness is rated BBB or higher by Standard & Poor's and Baa2 or higher by Moody's, and (iii) a rate per annum equal to .1250% if on such date clauses (i) and (ii) are inapplicable (including if such Long-Term Indebtedness is no longer rated by either agency).

"Applicable Lending Office" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance and such Lender's Eurodollar Lending Office in the case of a Eurodollar Rate Advance and, in the case of an Uncommitted Advance, the office of such Lender notified by such Lender to the Agent and the Borrower as its Applicable Lending Office with respect to such Uncommitted Advance.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit I hereto.

"Base Rate" means a fluctuating interest rate per annum as shall be in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by the Reference Bank in New York, New York, from time to time, as its base rate;

(b) 1/2 of one percent per annum above the secondary market morning offering rate in the United States for three-month certificates of deposit of major United States money market banks, determined by the Reference Bank, such rate being determined by the Reference Bank on the basis of quotations for such rates received by the Reference Bank from three New York certificate of deposit dealers of recognized standing selected by the Reference Bank adjusted to the nearest 1/4 of one percent or, if there is no nearest 1/4 of one percent, to the next higher 1/4 of one percent; or

(c) 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Advance" means a Committed Advance that bears interest as provided in Section 2.05(a).

"Borrower" has the meaning specified in the first paragraph of this Agreement.

"Borrowing" means a Committed Borrowing or an Uncommitted Borrowing.

"Business Day" means a day of the year on which banks are not required or authorized to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings in Dollars are carried on in the London interbank market.

"Capital Lease" means any lease of property, real or personal, the obligations under which are capitalized on the consolidated balance sheet of the Borrower and its Subsidiaries.

"Change of Control" means, with respect to the Borrower, the occurrence of any event, act or condition which results in either (i) any Person other than the ESOP becoming the beneficial owner, directly or indirectly, of 30% or more of the outstanding common stock of the Borrower or (ii) individuals who constitute the Continuing Directors ceasing for any reason to constitute at least the majority of the Board of Directors of the Borrower.

"Citibank" has the meaning specified in the first paragraph of this Agreement.

"Commitment" means, with respect to any Lender, the amount specified opposite such Lender's name on the signature pages hereof or, if such Lender has entered into any Assignment and Acceptance, set forth for such Lender in the Register maintained by the Agent pursuant to Section 8.07(d), as such amount may be reduced pursuant to Section 2.01(b).

"Committed Advance" means an advance by a Lender to the Borrower as part of a Committed Borrowing and refers to a Base Rate Advance or a Eurodollar Rate Advance, each of which shall be a "Type" of Committed Advance.

"Committed Borrowing" means a borrowing consisting of simultaneous Committed Advances of the same Type made by each of the Lenders pursuant to Section 2.01.

"Committed Note" means a promissory note of the Borrower payable to the order of any Lender, in substantially the form of Exhibit A hereto, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the Committed Advances made by such Lender.

"Consolidated Cash Expenditures" has the meaning provided in Section 5.01(f).

"Consolidated Cash Flow" has the meaning provided in Section 5.01(f).

"Consolidated Net Tangible Assets" means the excess over current liabilities of all assets properly appearing on a consolidated balance sheet of the Borrower and its Subsidiaries after deducting goodwill, trademarks, patents, other like intangibles and the minority interests of others in Subsidiaries.

"Consolidated Subsidiary" has the meaning provided in Section 5.01(f).

"Contingent Obligation" as to any Person means any obligation of such Person guaranteeing or intended to guarantee any Indebtedness, leases, dividends or other obligations ("primary obligations") of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of such Person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (x) for the purchase or payment of any such primary obligation or (y) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of such primary obligation against loss in respect thereof; provided, however, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith.

"Continuing Director" means any member of the Board of Directors of the Borrower who is not affiliated with an Acquiring Person and who is a member of the Board of Directors of the Borrower immediately prior to the time that the Acquiring Person became an Acquiring Person and any successor to a Continuing Director who is not affiliated with the Acquiring Person and is recommended to succeed a Continuing Director by a majority of Continuing Directors who are then members of the Board of Directors of the Borrower.

"Default" means an event which would constitute an Event of Default but for the giving of notice, the lapse of time or both.

"Dollars" and "\$" mean lawful money of the United States of America.

"Domestic Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Agent.

"Effective Date" has the meaning set forth in Section 3.01.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successors thereto, and the regulations promulgated and the rulings found thereunder.

"ERISA Controlled Group" means a group consisting of any ERISA Person and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control with such Person that, together with such Person, are treated as a single employer under regulations of the PBGC.

"ERISA Person" has the meaning set forth in Section 3(9) of ERISA for the term "person."

"ERISA Plan" means (i) any Plan that (x) is not a Multiemployer Plan and (y) has Unfunded Benefit Liabilities in excess of \$20,000,000 and (ii) any Plan that is a Multiemployer Plan.

"ESOP" means The Stanley Works 401(k) Savings Plan or any successor plan.

"Eurocurrency Liabilities" has the meaning provided in Regulation D of the Federal Reserve Board, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office of such Lender is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Agent.

"Eurodollar Rate" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same Committed Borrowing, an interest rate per annum equal to the offered rate for deposits in Dollars as quoted by the British Banker's Association on Telerate page 3750 at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to the Reference Bank's Eurodollar Rate Advance comprising part of such Committed Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period.

"Eurodollar Rate Advance" means a Committed Advance that bears interest as provided in Section 2.05(b).

"Eurodollar Rate Reserve Percentage" for any Lender for any Eurodollar Rate Advances owing to such Lender means the reserve percentage applicable two Business Days before the first day of the applicable Interest Period under regulations issued from time to time by the Federal Reserve Board for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to the applicable Interest Period.

"Events of Default" has the meaning specified in Section 6.01.

"Federal Bankruptcy Code" means Title 11 of the United States Code entitled "Bankruptcy", as amended from time to time, or any successor thereto.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve Board arranged by Federal fund brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Reference Bank from three Federal funds brokers of recognized standing selected by the Reference Bank.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System as constituted from time to time.

"Fixed Rate" has the meaning set forth in Section 2.13(c)(ii)(C).

"Fixed Rate Advance" means an Advance which bears interest as provided in Section 2.05(d).

"Fixed Rate Auction" means a solicitation of Quotes setting forth Fixed Rates pursuant to Section 2.13.

"Floating Rate" means, for any Interest Period for a Floating Rate Advance, an interest rate per annum equal to the Base Rate in effect from time to time minus the Floating Rate Margin for such Advance and Interest Period.

"Floating Rate Advance" means an Advance which bears interest as provided in Section 2.05(c).

"Floating Rate Auction" means a solicitation of Quotes setting forth Floating Rate Margins based on the Base Rate pursuant to Section 2.13.

"Floating Rate Margin" has the meaning provided in Section 2.13(c) (ii) (B).

"GAAP" means United States generally accepted accounting principles as in effect from time to time.

"Indebtedness" of any Person means, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business of such Person), (ii) all indebtedness of such Person evidenced by a note, bond, debenture or similar instrument, (iii) the principal component of all Capital Lease obligations of such Person, (iv) the face amount of all letters of credit issued for the account of such Person and, without duplication, all unreimbursed amounts drawn thereunder, (v) all indebtedness of any other Person secured by any Lien on any property owned by such Person, whether or not such indebtedness has been assumed, (vi) all Contingent Obligations of such Person, and (vii) all payment obligations of such Person under any interest rate protection agreement (including, without limitation, any interest rate swaps, caps, floors, collars and similar agreements) and currency swaps and similar agreements.

"Initial Lenders" has the meaning specified in the first paragraph of this Agreement.

"Interest Period" means, for each Eurodollar Rate Advance comprising part of the same Committed Borrowing, each Floating Rate Advance comprising part of the same Uncommitted Borrowing and each Fixed Rate Advance comprising part of the same Uncommitted Borrowing, the period commencing on the date of such Advance or the date of the continuation of such Eurodollar Rate Advance or the date of the conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be (a) in the case of a Eurodollar Rate Advance, one, two, three or six months, (b) in the case of a Fixed Rate Advance, from 14 to 180 days, and (c) in the case of a Floating Rate Advance, from 30 to 180 days, in each case as the Borrower may select in the Notice of Borrowing, Quote Request or Notice of Conversion or Continuation for such Advance, as the case may be; provided that:

(i) the Borrower may not select any Interest Period which ends after the Termination Date;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; provided that if, in the case of any Interest Period with respect to any Eurodollar Rate Advance, such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day;

(iii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iv) below, end on the last Business Day of a calendar month;

(iv) any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date;

(v) if, upon the expiration of any Interest Period with respect to a Committed Borrowing consisting of Eurodollar Rate Advances, the Borrower has failed to elect a new Interest Period to be applicable to such Advances as provided above, the Borrower shall be deemed to have elected to convert such Advances into a Base Rate Advance effective as of the expiration date of such current Interest Period; and

(vi) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Committed Borrowing or for Fixed Rate Advances or Floating Rate Advances comprising part of the same Uncommitted Borrowing shall be of the same duration.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

"Lenders" means the Initial Lenders and each Person that shall become a party hereto pursuant to Section 8.07.

"Lien" shall mean any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preferential payment arrangement, priority or other security agreement of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same effect as any of the foregoing and the filing of any financing statement or similar instrument under the Uniform Commercial Code or comparable law of any jurisdiction, domestic or foreign.

"Long-Term Indebtedness" means the long-term Senior Unsecured Indebtedness of the Borrower.

"Margin Stock" has the meaning ascribed to such term in Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Material Adverse Effect" means a material adverse effect on the business, financial condition or results of operations of the Borrower and its Consolidated Subsidiaries taken as a whole.

"Multiemployer Plan" means a Plan which is a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA.

"Note" means a Committed Note or an Uncommitted Note.

"Notice of Borrowing" has the meaning provided in Section 2.02(b).

"Notice of Conversion or Continuation" has the meaning provided in Section 2.04.

"Other Taxes" has the meaning provided in Section 2.10(b).

"PBGC" means the Pension Benefit Guaranty Corporation established under ERISA, or any successor thereto.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

"Plan" means any employee benefit plan covered by Title IV of ERISA, the funding requirements of which:

(i) were the responsibility of the Borrower or a member of its ERISA Controlled Group at any time within the five years immediately preceding the date hereof,

(ii) are currently the responsibility of the Borrower or a member of its ERISA Controlled Group, or

(iii) hereafter become the responsibility of the Borrower or a member of its ERISA Controlled Group, including any such plans as may have been, or may hereafter be, terminated for whatever reason.

"Principal Property" means all real property and tangible personal property constituting a manufacturing plant owned by the Borrower or any of its Subsidiaries, exclusive of (i) motor vehicles, mobile materials handling equipment and other rolling stock, (ii) office furnishings and equipment, information and electronic data processing equipment, (iii) any property financed through obligations issued by a state, territory or possession of the United States, or any political subdivision or instrumentality of the foregoing, on which the interest cannot, in the opinion of tax counsel of recognized standing or in accordance with a ruling issued by the Internal Revenue Service, be included in gross income of the holder under Section 103(a)(1) of the Internal Revenue Code (or any successor to such provision) as in effect at the time of the issuance of such obligations, (iv) any real property held for development or sale, or (v) any property and equipment included therein without deduction of any depreciation reserves which is less than 10% of Consolidated Net Tangible Assets or which the Board of Directors of the Borrower determines is not material to the operation of the business of the Borrower and its Subsidiaries taken as a whole.

"Principal Subsidiary" means any Subsidiary of the Borrower which has net sales which represent 15% or more of the consolidated net sales of the Borrower and its Consolidated Subsidiaries taken as a whole.

"Pro Rata Share" means, with respect to any Lender, the percentage corresponding to the fraction the numerator of which shall be the amount of the Commitment of such Lender and the denominator of which shall be the aggregate amount of the Commitments of all Lenders.

"Quote" means an offer by any Lender to make an advance under Section 2.13.

"Quote Request" has the meaning set forth in Section 2.13(b).

"Rate Notification" has the meaning set forth in Section 2.02(a).

"Rate Request" has the meaning set forth in Section 2.02(a).

"Reference Bank" means Citibank or, if Citibank is no longer the Agent, such Person (which shall be a Lender or the Agent) as shall be designated by the Borrower with the consent of the Required Lenders, which consent shall not be unreasonably withheld.

"Register" has the meaning specified in Section 8.07(d).

"Reportable Event" has the meaning set forth in Section 4043(b) of ERISA (other than a Reportable Event as to which the provision of 30 days notice to the PBGC is waived under applicable regulations).

"Required Lenders" means at any time Lenders representing in the aggregate at least 51% of the Commitments or, if the Commitments shall have terminated, Lenders representing in the aggregate at least 51% of the sum of the Advances owing to Lenders hereunder.

"Senior Unsecured Indebtedness" means Indebtedness that is not subordinated to any other Indebtedness and is not secured or supported by a guarantee, letter of credit or other form of credit enhancement.

"Subsidiary" of any Person means (i) any corporation 50% or more of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries and (ii) any partnership, association, joint venture, limited liability company or other entity in which such Person, directly or indirectly through Subsidiaries, is either a general partner or has a 50% or more equity interest at the time.

"Taxes" has the meaning provided in Section 2.10.

"Termination Date" means the earlier of (i) October 25, 2001 or (ii) the date of termination in whole of the Commitments pursuant to Section 2.01(b) or 6.01.

"Termination Event" means (i) a Reportable Event, or (ii) the initiation of any action by the Borrower, any member of the Borrower's ERISA Controlled Group or any ERISA Plan fiduciary to terminate an ERISA Plan or the treatment of an amendment to an ERISA Plan as a termination under ERISA, or (iii) the institution of proceedings by the PBGC under Section 4042 of ERISA to terminate an ERISA Plan or to appoint a trustee to administer any ERISA Plan.

"Type" has the meaning provided in the definitions of Committed Advance and Uncommitted Advance.

"Uncommitted Advance" means an advance by a Lender to the Borrower as part of an Uncommitted Borrowing resulting from the auction bidding procedure described in Section 2.13 and refers to a Floating Rate Advance or a Fixed Rate Advance, each of which shall be a "Type" of Uncommitted Advance.

"Uncommitted Note" means a promissory note of the Borrower payable to the order of any Lender, in substantially the form of Exhibit D hereto, evidencing the indebtedness of the Borrower to such Lender resulting from the Uncommitted Advances made by such Lender.

"Uncommitted Borrowing" means a borrowing consisting of simultaneous Uncommitted Advances from each of the Lenders whose offer to make one or more Uncommitted Advances as part of such borrowing has been accepted under the auction bidding procedure described in Section 2.13.

"Unfunded Benefit Liabilities" means with respect to any Plan at any time, the amount (if any) by which (i) the present value of all benefit liabilities under such Plan as defined in Section 4001(a)(16) of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan (on the basis of assumptions prescribed by the PBGC for the purpose of Section 4044 of ERISA).

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP.

## ARTICLE II

### AMOUNTS AND TERMS OF THE ADVANCES

#### SECTION 2.01. The Commitment. (a) The Committed Advances.

Each Lender agrees, on the terms and conditions hereinafter set forth, to make Committed Advances to the Borrower from time to time on any Business Day during the period from the date hereof until the Termination Date in an aggregate amount not to exceed at any time outstanding (i) such Lender's Commitment minus (ii) such Lender's Pro Rata Share of the aggregate principal amount of all Uncommitted Advances then outstanding. Within the limits of each Lender's Commitment, the Borrower may borrow, repay, prepay (as provided in Section 2.07) and reborrow such amount or any portion thereof. Each Committed Borrowing shall be in an aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof or, if less, the aggregate amount of the unused Commitments and shall consist of Committed Advances of the same Type made on the same day by the Lenders ratably according to their respective Commitments. Notwithstanding the foregoing restriction with respect to the minimum amount of each Committed Borrowing, the Borrower may borrow Committed Borrowings in an aggregate amount equal to the amount by

which the aggregate amount of a proposed Uncommitted Borrowing requested by the Borrower exceeds the aggregate amount of Uncommitted Advances offered to be made by the Lenders and accepted by the Borrower in respect of such Uncommitted Borrowing, if such Uncommitted Borrowing is made on the same date as such Committed Borrowing.

(b) Termination and Reduction. The Borrower shall have the right, upon at least two Business Days' notice to the Agent, to terminate in whole or reduce each Lender's Pro Rata Share of the unused Commitments, provided that the aggregate amount of the Commitments of the Lenders shall not be reduced to an amount that is less than the aggregate principal amount of the Uncommitted Advances then outstanding. Each partial reduction of the Commitments shall be in the aggregate amount of at least \$10,000,000 or a larger whole multiple of \$1,000,000.

SECTION 2.02. Making the Committed Advances. (a)

Determination of Eurodollar Rate. The Borrower may request the Reference Bank, no earlier than 9:00 A.M. (New York City time) and no later than 11:00 A.M. (New York City time) on the third Business Day before a proposed Eurodollar Rate Advance, to notify the Borrower of the Eurodollar Rate that would be applicable to a Committed Advance in the principal amount and with the Interest Period as described by the Borrower in such request, which request shall be substantially in the form of Exhibit B-1 (a "Rate Request"). Upon such request, the Reference Bank shall furnish such interest rate to the Borrower no later than noon (New York City time) on the second Business Day before the proposed Eurodollar Rate Advance by delivering to the Borrower a copy of the related Rate Request setting forth such rate and executed by an authorized officer of the Reference Bank in the space provided therefor (a "Rate Notification"). The Borrower shall be entitled to rely on any such notification and such rate shall be conclusive and binding on the Lenders absent manifest error.

(b) Notice of Borrowing. Each Committed Borrowing shall be made on notice by the Borrower to the Agent, which shall give to each Lender prompt notice thereof by telecopier or telex, given not later than 11:00 A.M. (New York City time) on the date of the proposed Committed Borrowing if such Committed Borrowing is to be comprised of Base Rate Advances and no earlier than 9:00 A.M. (New York City time) and no later than 4:00 P.M. (New York City time) on the third Business Day prior to such date if such Committed Borrowing is to be comprised of Eurodollar Rate Advances. Each such notice of a Committed Borrowing (a "Notice of Borrowing") shall be by telecopier, telex or cable, or by telephone confirmed immediately in writing, in substantially the form of Exhibit B-2 hereto, specifying therein the requested (i) date of such Committed Borrowing, (ii) Type of Advances comprising such Committed Borrowing, (iii) aggregate amount of such Committed Borrowing and (iv) in the case of a Committed Borrowing consisting of Eurodollar Rate Advances, the initial Interest Period for each such Committed Advance. Each Lender shall, before 1:00 P.M. (New York City time) on the date of such Committed Borrowing, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's Pro Rata Share of such

Committed Borrowing. Promptly after the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower by depositing the same in immediately available funds into such account as the Borrower shall have specified in the related Notice of Borrowing.

(c) Illegality, Etc. Anything in subsection (a) or (b) above to the contrary notwithstanding,

(i) if any Lender shall, at least one Business Day before the date of any requested Advance or the date of any conversion to or continuation of a Eurodollar Rate Advance, notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or that any central bank or other governmental authority asserts that it is unlawful, for such Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, the Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon (A) such Lender shall have no obligation to make Eurodollar Rate Advances, or to convert Advances into Eurodollar Rate Advances, until such Lender notifies the Borrower and the Agent that the circumstances causing such suspension no longer exist and (B) the Borrower shall be deemed to have converted all Eurodollar Rate Advances of such Lender then outstanding into Base Rate Advances in accordance with Section 2.04 on and as of the date of the Agent's receipt of such notice, unless and to the extent such notice directs that one or more Eurodollar Rate Advances shall be so converted on the last day of the applicable Interest Period, provided that (w) before giving any such notice, such Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Applicable Lending Office if the making of such a designation would avoid the need for such suspension and conversion and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender, (x) any request by the Borrower for Eurodollar Rate Advances during a time when a Lender's obligation to make, or convert Advances into, Eurodollar Rate Advances shall be suspended hereunder shall be deemed to be a request for, or for conversion into, Base Rate Advances from such Lender, (y) all Advances that would otherwise be made by such Lender as Eurodollar Rate Advances during any such suspension shall instead be made as Base Rate Advances, and (z) in the event any Lender shall notify the Agent and the Borrower of the occurrence of the circumstances causing such suspension under this Section 2.02(c), all payments and prepayments of principal that would otherwise have been applied to repay the Eurodollar Rate Advances that would have been made by such Lender or the converted Eurodollar Rate Advances shall instead be applied to repay the Base Rate Advances made by such Lender in lieu of, or resulting from the conversion of, such Eurodollar Rate Advances;

(ii) if the Reference Bank cannot furnish the Eurodollar Rate for any Committed Borrowing consisting of Eurodollar Rate Advances because of conditions existing in the London interbank market, the right of the Borrower to select Eurodollar Rate Advances shall be suspended until the Reference Bank shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist; and

(iii) if the Required Lenders shall, at least one Business Day before the date of any requested Eurodollar Rate Advance, notify the Agent that the Eurodollar Rate for any Interest Period will not adequately reflect the cost to the Required Lenders of making, funding or maintaining their respective Eurodollar Rate Advances for such Interest Period, the Agent shall forthwith so notify the Borrower and the Lenders, whereupon the Lenders shall have no obligation to make, or convert Committed Advances into, Eurodollar Rate Advances until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

(d) Effect of Failure to Fulfill Conditions. Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Committed Borrowing that the related Notice of Borrowing specifies is to be comprised of Eurodollar Rate Advances, the Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Committed Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (excluding anticipated profits), cost or expense reasonably incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Committed Advance to be made by such Lender as part of such Committed Borrowing when such Advance, as a result of such failure, is not made on such date, such indemnity to be paid promptly upon receipt by the Borrower of a certificate of such Lender setting forth the calculation of the amount of the indemnity claimed by such Lender.

(e) Funds Available. Unless the Agent shall have received notice from a Lender prior to the date of any Committed Borrowing that such Lender will not make available to the Agent such Lender's ratable portion of such Committed Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Committed Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Agent, such Lender and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at the time to Committed Advances comprising such Committed Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid

shall constitute such Lender's Committed Advance as part of such Committed Borrowing for purposes of this Agreement.

(f) Failure to Make Advances. The failure of any Lender to make the Committed Advance to be made by it as part of any Committed Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Committed Advance on the date of such Committed Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Committed Advance to be made by such other Lender on the date of any Committed Borrowing.

SECTION 2.03. Fees. (a) Facility Fee. The Borrower agrees to pay to the Agent for the account of each Lender a facility fee on the aggregate amount of such Lender's Commitment from the date hereof in the case of each Initial Lender and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the Termination Date at the Applicable Facility Fee Rate, payable quarterly in arrears on the last day of each March, June, September and December during the term hereof and on the Termination Date. All computations of the facility fee shall be based on a year of 365 or 366 days, as the case may be.

(b) Agent's Fees. The Borrower shall pay to the Agent for its own account such fees as may from time to time be agreed between the Borrower and the Agent.

SECTION 2.04. Continuation and Conversion. (a) General. Subject to the other provisions hereof, the Borrower shall have the option (i) to convert all or any part of an outstanding Committed Borrowing consisting of Base Rate Advances to a Committed Borrowing consisting of Eurodollar Rate Advances, (ii) to convert all or any part of an outstanding Committed Borrowing consisting of Eurodollar Rate Advances to a Committed Borrowing consisting of Base Rate Advances, or (iii) to continue all or any part of an outstanding Committed Borrowing consisting of Eurodollar Rate Advances as a Committed Borrowing consisting of Eurodollar Rate Advances for an additional Interest Period; provided that no Committed Borrowing consisting of Eurodollar Rate Advances shall be so converted other than as contemplated by Section 2.02(c) or continued, until the expiration of the Interest Period applicable thereto.

(b) Notice of Conversion or Continuation. In order to elect to convert or continue a Committed Borrowing hereunder, the Borrower shall deliver an irrevocable notice thereof (a "Notice of Conversion or Continuation") to the Agent by telecopier, telex or cable or by telephone confirmed immediately in writing, no later than (i) 11:00 A.M., (New York City time) on the proposed conversion date in the case of a conversion to Base Rate Advances and (ii) no earlier than 9:00 A.M. (New York City time) and no later than 4:00 P.M. (New York City time) on the third Business Day in advance of the proposed conversion or continuation date in the case

of a conversion to, or a continuation of, Eurodollar Rate Advances, substantially in the form of Exhibit C hereto. A Notice of Conversion or Continuation shall specify (w) the requested conversion or continuation date (which shall be a Business Day), (x) the amount and Type of the Advances to be converted or continued, (y) whether a conversion or continuation is requested, and (z) in the case of a conversion to, or a continuation of, Eurodollar Rate Advances, the requested Interest Period. The relevant Eurodollar Rate for such Interest Period in the case of a conversion to, or a continuation of, Eurodollar Rate Advances shall be determined in the manner provided in Section 2.02(a) as if such conversion or continuation is instead new Eurodollar Rate Advances in such amount, on such date and for such Interest Period. If the Borrower fails to give a Notice of Conversion or Continuation with respect to an outstanding Committed Borrowing consisting of Eurodollar Rate Advances as provided in clause (ii) above, the Borrower shall be deemed to have converted such Eurodollar Rate Advances into Base Rate Advances in accordance with this Section 2.04 if such Advances are outstanding after the last day of the Interest Period with respect thereto.

SECTION 2.05. Interest on Advances. The Borrower shall pay interest on the unpaid principal amount of each Advance owing to each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(a) Base Rate Advances. If such Advance is a Base Rate Advance, a rate per annum equal to the Base Rate in effect from time to time, payable in arrears quarterly on the last Business Day of each fiscal quarter during the period such Base Rate Advance remains outstanding and on the date such Base Rate Advance shall be paid in full;

(b) Eurodollar Rate Advances. If such Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during the Interest Period for such Advance to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Eurodollar Margin for such Advance, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day which occurs during such Interest Period every three months from the first day of such Interest Period;

(c) Floating Rate Advances. If such Advance is a Floating Rate Advance, a rate per annum equal at all times during the Interest Period for such Advance to the Floating Rate for such Interest Period quoted by such Lender in accordance with Section 2.13, payable in arrears on the last Business Day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day which occurs during such Interest Period every three months from the first day of such Interest Period;

(d) Fixed Rate Advances. If such Advance is a Fixed Rate Advance, a rate per annum equal at all times during the Interest Period for such Advance to the Fixed Rate for such Interest Period quoted by such Lender in accordance with Section 2.13, payable in arrears on the

last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day which occurs during such Interest Period every three months from the first day of such Interest Period; and

(e) Default Rate. In the event that, and for so long as, any Event of Default shall have occurred and be continuing, the outstanding principal amount of all Advances and, to the extent permitted by law, overdue interest in respect of all Advances, shall bear interest at a rate per annum equal to the sum of two percent (2%) plus the interest rate otherwise applicable hereunder to such principal amount in effect from time to time. In the event that, and for so long as, any Default under Section 6.01(a) shall have occurred and be continuing, the outstanding principal amount of the Advance with respect to which such Default has occurred and is continuing shall bear interest at a rate per annum equal to the sum of two percent (2%) plus the interest rate otherwise applicable hereunder to such principal amount in effect from time to time.

SECTION 2.06. Additional Interest on Eurodollar Rate

Advances. The Borrower shall pay to each Lender, during each period as such Lender shall be required under regulations of the Federal Reserve Board to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Eurodollar Rate Advance of such Lender outstanding during such period, from the later of the date such reserves are required and the making of such Advance until the earlier of the date such reserves are no longer required and such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the Eurodollar Rate for the Interest Period applicable to such Advance from (ii) the rates obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the average Eurodollar Rate Reserve Percentage of such Lender during such period, payable on each date on which interest is payable on such Advance. Such Lender shall determine the amount of such additional interest, if any, and promptly notify the Borrower through the Agent of the amount thereof.

SECTION 2.07. Repayment and Prepayment of Advances. (a) The

Borrower shall repay to the Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Committed Advances then outstanding and shall repay to the Agent for the account of the Lenders to which Uncommitted Advances comprising part of the same Borrowing are owing the aggregate principal amount of such Uncommitted Advances then outstanding on the last day of the Interest Period with respect thereto. The Borrower shall have no right to prepay any principal amount of any Advances other than as provided in this Section 2.07. The Borrower may, upon at least two Business Days' notice to the Agent stating the proposed date and principal amount of the prepayment, and if such notice is given the Borrower shall, prepay the outstanding principal amount of the Committed Advances comprising part of the same Committed Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that each partial prepayment shall be in the aggregate principal amount of at least \$10,000,000 or a larger whole

multiple of \$1,000,000 and, in the case of a payment or prepayment of a Eurodollar Rate Advance other than on the last day of the Interest Period for such Advance as provided herein, shall have the consequences set forth in Section 8.04(b).

(b) The Borrower shall notify the Agent immediately upon becoming aware of any Change of Control. Upon receipt of such notice and for a period of 90 days thereafter, the Required Lenders shall be entitled, by written notice to the Borrower received within such period, to terminate the Commitments in whole and require the Borrower to prepay all outstanding Advances within 5 Business Days of its receipt of such notice, together with any accrued and unpaid interest thereon to the date of such prepayment and any other amounts due hereunder. Notwithstanding any other provision contained herein, a Change of Control shall not, in and of itself, constitute a Default hereunder.

SECTION 2.08. Increased Costs. (a) Changes in Law, Etc. If, due to (i) the introduction of or any change in or in the interpretation of any law or regulation on or after the date of this Agreement, or (ii) the compliance with any guideline or request not applicable on the date of this Agreement from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances, then the Borrower shall from time to time, promptly upon demand by such Lender (with a copy of such demand to the Agent) accompanied by the certificate described in the next sentence, pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost. A certificate as to the amount of such increased cost, submitted to the Borrower and the Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) Capital Adequacy. If, due to (i) the introduction of or any change in or in the interpretation of any law or regulation on or after the date of this Agreement, or (ii) the compliance with any guideline or request not applicable on the date of this Agreement from any central bank or other governmental authority (whether or not having the force of law), any Lender determines that the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender has been or would be affected and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend hereunder and other commitments of this type, then, upon demand by such Lender received by the Borrower within such time from the relevant change or introduction described above as is reasonably required in order to determine the effect thereof (with a copy of such demand to the Agent) accompanied by a certificate of such Lender as to the amounts demanded, the Borrower shall pay to the Agent for the account of such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender or such corporation, as the case may be, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend hereunder, such amounts to be due and payable within two days of such Lender's invoice therefor. A certificate

as to such amounts submitted to the Borrower and the Agent by such Lender shall be conclusive and binding for all purposes, absent manifest error.

SECTION 2.09. Payments and Computations. (a) Manner of Payment. The Borrower shall make each payment hereunder and under the Notes not later than 11:00 A.M. (New York City time) on the day when due in Dollars to the Agent at the Agent's Account in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or facility fees ratably (other than amounts payable pursuant to Section 2.02(d), 2.06, 2.08, 2.10, 2.13(f) or 8.04(b)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) Setoff. The Borrower hereby authorizes each Lender, if and to the extent payment owed to such Lender is not made when due hereunder or under the Note or Notes held by such Lender, to charge from time to time against any or all of the Borrower's accounts with such Lender any amount so due.

(c) Interest. All computations of interest based on the Base Rate shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate or the Federal Funds Rate or with respect to Uncommitted Advances and all computations of interest pursuant to Section 2.06 shall be made by the Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. Each determination by the Reference Bank of an interest rate for any Committed Advance hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Business Days. Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or facility fee, as the case may be; provided that if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Assumption of Payment. Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

(f) Rate Information. The Reference Bank shall notify the Borrower and the Agent of the Base Rate in effect on the first Business Day on which a Base Rate or Floating Rate Advance is outstanding and each day on which a change in the Base Rate occurs, each in sufficient detail to enable the Borrower to calculate interest payments hereunder with respect to Base Rate Advances and Floating Rate Advances, and shall provide such information to any Lender promptly upon its request. The Borrower will provide to each Lender (i) (unless the Lender is the Reference Bank) promptly upon receipt thereof copies of the information received by the Borrower pursuant to the immediately preceding sentence or any Rate Notification received pursuant to Section 2.02(a), (ii) promptly upon the making of any interest payment with respect to a Base Rate Advance or a Floating Rate Advance hereunder a schedule based on such information setting forth the Base Rate for each day in the period in which such Advance was outstanding, and (iii) promptly upon obtaining knowledge thereof, notice of any change in the rating assigned by Standard & Poor's or Moody's to the Borrower's Long-Term Indebtedness and the date of such change, provided that the Borrower's failure to provide any of the foregoing information shall be deemed not to be a Default or Event of Default hereunder.

SECTION 2.10. Taxes. (a) General. Any and all payments by the Borrower hereunder or under the Notes shall be made in accordance with Section 2.09, free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, not in effect or not imposed on the date of this Agreement; excluding, in the case of each Lender and the Agent, taxes imposed on its income, and franchise taxes imposed on it by the jurisdiction under the laws of which such Lender or the Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Lender, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes").

(b) Other Taxes. In addition, the Borrower agrees to pay any stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise

from any payment made hereunder or under the Notes or from the execution, delivery or registration of, or otherwise with respect to, this Agreement not in effect or not imposed on the date of this Agreement or the Notes (hereinafter referred to as "Other Taxes") upon notice from the Lender.

(c) Tax Indemnity. The Borrower will indemnify each Lender and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.10) paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor.

(d) Receipt. Within 30 days after the date of any payment of Taxes, the Borrower will furnish to the Agent, at its address referred to in Section 8.02, the original or a certified copy of a receipt evidencing payment thereof.

(e) Survival. Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this Section 2.10 shall survive the payment in full of principal and interest hereunder.

SECTION 2.11. Evidence of Debt. The Committed Advances owing to each Lender shall be evidenced by the Committed Note to the order of such Lender and the Uncommitted Advances owing to each Lender shall be evidenced by the Uncommitted Note to the order of such Lender, in each case delivered to such Lender pursuant to Article III. The entries made in each Committed Note and each Uncommitted Note shall be conclusive and binding for all purposes absent manifest error.

SECTION 2.12. Use of Proceeds of Advances. The Borrower will use the proceeds of the Advances for general corporate purposes, including, without limitation, for the acquisition of Margin Stock.

SECTION 2.13. Uncommitted Advances. (a) The Uncommitted Advances Option. In addition to Committed Advances pursuant to Section 2.01, the Borrower may, as set forth in this Section 2.13, request the Lenders to make offers to make Uncommitted Advances to the Borrower. Each Lender may, but shall have no obligation to, make such offers and the Borrower may, but shall have no obligation to, accept any such offers in the manner set forth in this Section 2.13; provided that, following the making of each Uncommitted Borrowing, the aggregate amount of the Advances then outstanding shall not exceed the aggregate amount of the Commitments of the Lenders. The Uncommitted Advances may be Floating Rate Advances or Fixed Rate Advances.

(b) Quote Request. When the Borrower wishes to request offers to make Uncommitted Advances as part of an Uncommitted Borrowing, it shall transmit to the Agent, by telecopier or telex, a quote request substantially in the form of Exhibit E hereto (a "Quote Request") so as to be received (x) no earlier than 9:00 A.M. (New York City time) and no later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of Borrowing proposed therein, in the case of a Fixed Rate Auction, or (y) no later than 11:00 A.M. (New York City time) on the Business Day immediately preceding the proposed date of Borrowing proposed therein, in the case of a Floating Rate Auction, specifying:

(i) the proposed date of Borrowing, which shall be a Business Day;

(ii) the proposed aggregate amount of such Borrowing, which shall be \$10,000,000 or a larger whole multiple of \$1,000,000; and

(iii) the duration of the proposed Interest Period applicable thereto subject to the provisions of the definition of Interest Period.

The Agent shall in turn promptly notify each Lender of each request for an Uncommitted Borrowing received by it from the Borrower by sending such Lender a copy of the related Quote Request. The Borrower may request offers to make Uncommitted Advances for more than one Interest Period in a single Quote Request. No Quote Request shall be given within five Business Days of any other Quote Request.

(c) Submission and Contents of Quotes. (i) Each Lender may but shall not be required to submit a Quote containing an offer or offers to make an Uncommitted Advance as part of a proposed Uncommitted Borrowing in response to any Quote Request. Each Quote must comply with the requirements of this Section 2.13(c) and must be submitted to the Agent (which shall give prompt notice thereof to the Borrower) in writing (including by telecopy) no later than (A) 11:00 A.M. (New York City time) on the third Business Day prior to the proposed date of borrowing in the case of a Fixed Rate Auction or (B) 11:00 A.M. (New York City time) on the Business Day immediately preceding the proposed date of borrowing, in the case of a Floating Rate Auction; provided that if the Agent in its capacity as a Lender shall, in its sole discretion, elect to make any such offer, it shall notify the Borrower of such offer at least 30 minutes before the time and on the date on which notice of such election is to be given to the Agent by the other Lenders. If any Lender shall elect not to make such an offer, such Lender shall so notify the Agent, before 11:00 A.M. (New York City time) on the date on which notice of such election is to be given to the Agent by the other Lenders, and such Lender shall not be obligated to, and shall not, make any Uncommitted Advance as part of such Uncommitted Borrowing; provided that the failure by any Lender to give such notice shall not cause such Lender to be obligated to make any Uncommitted Advance as part of such proposed Uncommitted Borrowing. Any Quote so made shall be irrevocable except with the written consent of the Borrower.

(ii) A Quote may set forth each separate offer by a Lender with respect to each Interest Period specified in the related Quote Request. Each Quote shall be in substantially the form of Exhibit F hereto, and shall in any case specify:

(A) the principal amount of the Uncommitted Advance for each such offer, which principal amount (1) may be greater than or less than the Commitment of such Lender, (2) must be a whole multiple of \$1,000,000, (3) may not exceed (but may be less than) the proposed principal amount of the proposed Uncommitted Borrowing set forth in the related Quote Request, and (4) may be subject to an aggregate limitation as to the principal amount of Uncommitted Advances for which offers being made by such Lender may be accepted;

(B) in the case of a Floating Rate Auction, the margin below the Base Rate (the "Floating Rate Margin") offered for each such Uncommitted Advance expressed as a percentage (specified to the nearest 1/1,000th of 1%) to be subtracted from such Base Rate; and

(C) in the case of a Fixed Rate Auction, the rate of interest per annum (specified to the nearest 1/1,000th of 1%) (the "Fixed Rate") offered for each such Uncommitted Advance.

(iii) Any Quote shall be disregarded if it:

(A) is not substantially in conformity with the format described in the relevant Quote Request or does not specify all of the information required by Section 2.13(c) (ii);

(B) contains qualifying, conditional or similar language;

(C) proposes terms other than or in addition to those set forth in the applicable Quote Request; or

(D) is received by the Agent after the time set forth in

Section 2.13(c) (i).

(d) Acceptance and Notice by Borrower. Not later than (i) 1:00 P.M. (New York City time) on the third Business Day prior to the proposed date of borrowing, in the case of a Fixed Rate Auction or (ii) 1:00 P.M. (New York City time) on the Business Day immediately preceding the proposed date of borrowing, in the case of a Floating Rate Auction, the Borrower shall notify the Agent (which shall give prompt notice thereof to the Lenders) of its acceptance or nonacceptance of the offers so notified to it pursuant to Section 2.13(c) substantially in the form of Exhibit G hereto; provided that if the Borrower shall fail to so notify the Agent by the times

set forth above, the Borrower shall be deemed to have notified the Agent of its nonacceptance of each such offer. In the case of acceptance, each such notice shall specify the aggregate principal amount of offers that are accepted. The Borrower may accept any such offer in whole or in part; provided that:

(i) the aggregate principal amount of each Uncommitted Borrowing may not exceed the applicable amount set forth in the related Quote Request;

(ii) the principal amount of each Uncommitted Borrowing must be \$10,000,000 or a larger whole multiple of \$1,000,000;

(iii) acceptance of offers from the Lenders may only be made on the basis of ascending Floating Rate Margins or Fixed Rates, as the case may be; and

(iv) the Borrower may not accept any offer that is described in Section 2.13(c)(iii) or that otherwise fails to comply with the requirements of this Agreement.

(e) Allocation. If offers are made by more than one Lender with the same Floating Rate Margins or Fixed Rates, as the case may be, for a greater aggregate principal amount than the amount in respect of which such offers are accepted, the principal amount of Uncommitted Advances in respect of which such offers are accepted shall be allocated by the Agent among such Lenders as nearly as possible (in such multiples, not less than \$1,000,000, as it may deem appropriate) in proportion to the aggregate principal amounts of such offers. Determinations by the Agent of the allocations of Uncommitted Advances shall be binding and conclusive in the absence of manifest error. The Agent shall promptly notify the Borrower and the Lenders of any allocation pursuant to this Section 2.13(e).

(f) Funding. In the case of an Uncommitted Borrowing as to which the Borrower has accepted the offer of one or more Lenders to make an Uncommitted Advance under clause (d) above, before 12:00 noon (New York City time) on the date of such Uncommitted Borrowing, each such Lender shall make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's portion of such Uncommitted Borrowing. Upon fulfillment of the applicable conditions set forth in Article III and after receipt by the Agent of such funds, the Agent will make such funds available to the Borrower by depositing the same in immediately available funds into such account as the Borrower shall have specified in the related notice of acceptance (in substantially the form of Exhibit G). Promptly after each Uncommitted Borrowing the Agent will notify each Lender of the amount of the Uncommitted Borrowing, the aggregate principal amount of the Uncommitted Advances then outstanding and the dates upon which such Uncommitted Advances commenced and will mature.

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING

SECTION 3.01. Condition Precedent to Effectiveness of Sections 2.01 and 2.13. This Agreement shall become effective on the date (the "Effective Date") as of which the Agent shall confirm to the Borrower that it has received the following, each dated such day, in form and substance satisfactory to the Agent and (except for the Notes) in sufficient copies for each Lender:

(a) Notes. The Committed Notes and the Uncommitted Notes to the order of the Lenders, respectively;

(b) Resolutions, Etc. Certified copies of documents evidencing all necessary corporate action and governmental approvals, if any, with respect to this Agreement, the Committed Notes and the Uncommitted Notes;

(c) Incumbency. A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement, the Committed Notes, the Uncommitted Notes and the other documents to be delivered hereunder; and

(d) Legal Opinion. An opinion of counsel to the Borrower substantially in the form of Exhibit H.

SECTION 3.02. Conditions Precedent to Each Advance. The obligation of each Lender to make each Advance (including the initial Advance) as part of a Borrowing shall be subject to the further conditions precedent that (i) on the date of such Borrowing the following statements shall be true (and each of the giving of the applicable Notice of Borrowing or the notice of acceptance under Section 2.13(d), as the case may be, and the acceptance by the Borrower of the proceeds of such Advance shall constitute a representation and warranty by the Borrower that on the date of such Advance the following statements shall be true): (x) the representations and warranties contained in Section 4.01 are correct in all material respects on and as of the date of such Borrowing, before and after giving effect to such Borrowing and to the application of the proceeds therefrom, as though made on and as of such date, and (y) no event has occurred and is continuing, or would result from such Borrowing or from the application of the proceeds therefrom, that would constitute an Event of Default, or would constitute an Event of Default but for the requirement that notice be given or time elapse or both and, (ii) in the case of a requested Borrowing the proceeds of which are to be used to purchase or carry any Margin Stock, the Borrower shall deliver to the Agent a certificate of the chief financial officer of the

Borrower accompanying the relevant Notice of Borrowing setting forth in reasonable detail the basis upon which the Borrower has made the representation set forth in the third sentence of Section 4.01(1) on and as of the date of such Borrowing, before and after giving effect to such Borrowing and to the application of the proceeds therefrom.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

###### SECTION 4.01. Representations and Warranties of the Borrower.

The Borrower represents and warrants as follows:

(a) Corporate Existence. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Connecticut.

(b) Corporate Authorization, Etc. The execution, delivery and performance by the Borrower of this Agreement and the Notes are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action and do not contravene (i) the Borrower's charter or by-laws or (ii) any law or contractual restriction binding on or affecting the Borrower or any of its Subsidiaries.

(c) No Approvals. No authorization, approval or action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Borrower of this Agreement or the Notes.

(d) Enforceability. This Agreement is and upon issuance and delivery thereof in accordance with Article III each Note will be the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

(e) Financial Information. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 30, 1995 and the related statements of income and retained earnings of the Borrower and its Consolidated Subsidiaries for the fiscal year then ended, copies of which have been furnished to the Lenders, fairly present in all material respects the financial condition of the Borrower and its Consolidated Subsidiaries as of such date and the results of the operations of the Borrower and its Consolidated Subsidiaries for the period ended on such date, all in accordance with GAAP consistently applied.

(f) No Litigation. Except as disclosed or otherwise reflected in the Borrower's Annual Report on Form 10-K for the year ended December 30, 1995, there is no pending or (to the best of the Borrower's knowledge) threatened action or proceeding against the

Borrower or any of its Subsidiaries or relating to any of their respective properties before any court, governmental agency or arbitrator, which could reasonably be expected to have a Material Adverse Effect or which purports to affect the legality, validity or enforceability of this Agreement or any Note.

(g) No Material Adverse Effect. Since December 30, 1995, there has been no event, act or condition which has had a Material Adverse Effect.

(h) Environmental Matters. Except as disclosed or otherwise reflected in the Borrower's Annual Report on Form 10-K for the year ended December 30, 1995, neither the Borrower nor any of its Subsidiaries has received notice or otherwise obtained knowledge of any claim, demand, action, event, condition, report or investigation indicating or concerning any potential or actual liability which could reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect arising in connection with (i) any non-compliance with or violation of the requirements of any applicable federal, state or local environmental health or safety statutes or regulations, or (ii) the release or threatened release of any toxic or hazardous waste, substance or constituent into the environment.

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

(j) Disclosure. The information furnished in writing by or on behalf of the Borrower to the Lenders in connection with the negotiation, execution and delivery of this Agreement does not contain any material misstatements of fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(k) No Defaults. The Borrower (i) is not in default under or with respect to this Agreement or any Note, and (ii) is not in default under or with respect to any other agreement, instrument or undertaking to which it is a party or by which it or any of its property is bound in any respect which could reasonably be expected to result in a Material Adverse Effect.

(l) Use of Proceeds, Etc. All proceeds of each Advance will be used by the Borrower only in accordance with the provisions of Section 2.12. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock and no proceeds of any Advance will be used to extend credit to others for the purpose of purchasing or carrying any Margin Stock. Neither the making of any Advance nor the use of the proceeds thereof will violate or be inconsistent with the provisions of Regulations G, U, or X issued by the Board of Governors of the Federal Reserve System.

ARTICLE V

COVENANTS OF THE BORROWER

SECTION 5.01. Affirmative Covenants. So long as any Advance or any other amount owing hereunder shall remain unpaid or any Lender shall have any Commitment hereunder:

(a) Financial Information. The Borrower will furnish to the Lenders:

(i) Quarterly Financial Statements. Within 50 days after the close of each quarterly accounting period in each fiscal year of the Borrower, the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as at the end of such quarterly period and the related consolidated and consolidating statements of income, retained earnings and cash flows for such quarterly period and for the elapsed portion of the fiscal year ended with the last day of such quarterly period, in each case setting forth comparative figures for the related periods in the prior fiscal year.

(ii) Annual Financial Statements. Within 95 days after the close of each fiscal year of the Borrower, the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as at the end of such fiscal year and the related consolidated statement of income, retained earnings and cash flows for such fiscal year, setting forth comparative figures for the preceding fiscal year and reported on without qualification by independent certified public accountants of recognized national standing, in each case together with a report of such accounting firm stating that in the course of its regular audit of the consolidated financial statements of the Borrower, which audit was conducted in accordance with generally accepted auditing standards, such accounting firm has obtained no knowledge of any Default or Event of Default relating to accounting matters (including, without limitation, in respect of Section 5.01(f)), or if in the opinion of such accounting firm such a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof.

(iii) Officer's Certificates. At the time of the delivery of the financial statements under clauses (i) and (ii) above, a certificate of the chief financial officer of the Borrower which certifies (x) that such financial statements fairly present the financial condition and the results of operations of the Borrower and its Subsidiaries on the dates and for the periods indicated, and (y) that such officer has reviewed the terms of this Agreement and has made, or caused to be made under his or her supervision, a review in reasonable detail of the business and condition of the Borrower and its Consolidated Subsidiaries during the accounting period covered by such financial statements, and that as a result of such review such officer has concluded that no Default or Event of Default

has occurred during the period commencing at the beginning of the accounting period covered by the financial statements accompanied by such certificate and ending on the date of such certificate or, if any Default or Event of Default has occurred, specifying the nature and extent thereof and, if continuing, the action the Borrower proposes to take in respect thereof. Such certificate shall set forth the calculations required to establish whether the Borrower was in compliance with the provisions of Section 5.01(f) for the twelve-month period ending as at the end of the accounting period covered by the financial statements accompanied by such certificate.

(iv) Notice of Default or Litigation. Promptly after the Borrower obtains knowledge thereof, notice of (i) the occurrence of any Default or Event of Default, or (ii) any litigation or governmental proceeding pending or threatened against the Borrower or other event, act or condition which could reasonably be expected to result in a Material Adverse Effect.

(v) SEC Filings. Promptly upon transmission thereof, copies of all regular and periodic financial information, proxy materials and other information and reports, if any, which the Borrower shall file with the Securities and Exchange Commission or any governmental agencies substituted therefor or which the Borrower shall send to its stockholders.

(vi) Other Information. From time to time, and as soon as reasonably practicable, such other information or documents (financial or otherwise) as any Lender through the Agent may from time to time reasonably request.

(b) Compliance with Law. The Borrower shall, and shall cause each of its Subsidiaries to, comply with all applicable laws, rules, statutes, regulations, decrees and orders of all governmental bodies, domestic or foreign, in respect of the conduct of their business and the ownership of their property, except such non-compliance as could not reasonably be expected to result in a Material Adverse Effect at the time of such noncompliance or in the foreseeable future.

(c) Payment of Taxes. The Borrower shall pay or cause to be paid, and shall cause each of its Subsidiaries to pay or cause to be paid, when due, all taxes, charges and assessments and all other lawful claims required to be paid by the Borrower or such Subsidiaries, except (x) as contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves have been established with respect thereto in accordance with GAAP and (y) where such nonpayment could not reasonably be expected to result in a Material Adverse Effect.

(d) Preservation of Corporate Existence. The Borrower shall, and shall cause each of its Subsidiaries to, do all things necessary to preserve, renew and keep in full force and

effect its corporate existence and the licenses, permits, rights and franchises necessary to the proper conduct of its business, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any of its Subsidiaries will engage in any business if, as a result, the general nature of the business, taken on a consolidated basis, which would then be engaged in by the Borrower and its Subsidiaries would be substantially changed from the general nature of the business engaged in by the Borrower and its Subsidiaries on the date of this Agreement.

(e) Maintenance of Books and Records. The Borrower will maintain financial records in accordance with GAAP, consistently applied. The representatives of the Agent or any of the Lenders shall have the right to visit and inspect any of the properties of the Borrower and of any of its Subsidiaries, to examine their books of account and records and take notes and make transcripts therefrom, and to discuss their affairs, finances and accounts with, and be advised as to the same by, their officers at such reasonable times and intervals as may be requested.

(f) Financial Condition. The Borrower shall cause Consolidated Cash Flow to equal or exceed 125% of Consolidated Cash Expenditures at the end of each fiscal quarter for the twelve-month period then ended. The defined terms used in this clause (f) shall be construed in accordance with GAAP and as follows:

(i) "Consolidated Cash Flow" means for any fiscal period the sum of (A) consolidated earnings before income taxes of the Borrower and its Consolidated Subsidiaries for such fiscal period (including any earnings representing net gain on disposition of assets) before extraordinary items and their tax effects and before income from discontinued operations; (B) to the extent such amount is greater than zero, (x) consolidated interest expense for the Borrower and its Consolidated Subsidiaries for such fiscal period, minus (y) consolidated interest earnings for the Borrower and its Consolidated Subsidiaries for such fiscal period; (C) consolidated depreciation and amortization for the Borrower and its Consolidated Subsidiaries for such fiscal period; (D) for any fiscal period which includes a fiscal quarter in fiscal year 1995, restructuring charges of the Borrower and its Consolidated Subsidiaries up to an aggregate of \$85.5 million in fiscal year 1995 to the extent such charges are taken into account in determining consolidated earnings during such fiscal quarter; (E) for any fiscal period which includes a fiscal quarter in fiscal year 1996, restructuring charges of the Borrower and its Consolidated Subsidiaries up to an aggregate of \$100 million in fiscal year 1996 to the extent such charges are taken into account in determining consolidated earnings for such fiscal quarter; and (F) for any fiscal period which includes a fiscal quarter in fiscal year 1997, restructuring charges of the Borrower and its Consolidated Subsidiaries up to an aggregate of an amount equal to (a) \$100 million minus (b) the aggregate amount of restructuring charges taken into account in determining consolidated earnings for any fiscal quarter in 1996.

(ii) "Consolidated Cash Expenditures" means for any fiscal period the sum of (A) consolidated interest expense of the Borrower and its Consolidated Subsidiaries, (B) consolidated capital expenditures of the Borrower and its Consolidated Subsidiaries and (C) the aggregate amount of all dividends paid or declared by the Borrower on any of its capital stock during such fiscal period; and

(iii) "Consolidated Subsidiary" means at any date any Subsidiary or other entity the financial statements of which would, under GAAP, be consolidated with those of the Borrower in its consolidated financial statements as of such date.

SECTION 5.02. Negative Covenants. So long as any Advance or any other amount owing hereunder shall remain unpaid or any Lender shall have any Commitment hereunder:

(a) No Liens. The Borrower shall not, and shall not permit any of its Subsidiaries to, create, incur, assume or suffer to exist, directly or indirectly, any Lien on any Principal Property now owned or hereafter acquired (unless the Borrower secures the Advances made hereunder equally and ratably with such Lien), other than:

(i) Liens existing and disclosed to the Lenders in writing prior to the date hereof;

(ii) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves are being maintained in accordance with GAAP;

(iii) Statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other Liens imposed by law created in the ordinary course of business for amounts not yet due or which are being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate bonds have been posted;

(iv) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(v) Easements, rights-of-way, zoning and similar restrictions and other similar charges or encumbrances not interfering with the ordinary conduct of the business of the Borrower or any of its Subsidiaries and which do not detract materially from the value of

the property to which they attach or impair materially the use thereof by the Borrower or any of its Subsidiaries;

(vi) Liens on property of any Person existing at the time such Person becomes a Subsidiary of the Borrower;

(vii) Liens securing Indebtedness owed by a Subsidiary of the Borrower to the Borrower or another Subsidiary of the Borrower;

(viii) any Lien arising solely by operation of law in the ordinary course of business or which is contained in a contract for the purchase or sale of goods or services entered into in the ordinary course of business;

(ix) Liens on any property existing at the time of acquisition but only if the amount of outstanding Indebtedness secured thereby does not exceed the lesser of the fair market value or the purchase price of the property as purchased;

(x) any Lien securing the purchase price of revenues or assets purchased after the date hereof or the cost of repairing or altering, constructing, developing or substantially improving all or any part of such revenues or assets; provided that such Lien attaches only to such revenues or assets (including any improvements) and the Indebtedness thereby secured does not exceed the lesser of the fair market value or the purchase price of the revenues or assets (including any improvements) as purchased;

(xi) any other Liens securing Indebtedness which in the aggregate does not exceed 10% of Consolidated Net Tangible Assets at any time outstanding; and

(xii) any extension, renewal or replacement of any of the Liens referred to above; provided that the Indebtedness secured by any such extension, renewal or replacement does not exceed the sum of the principal amount of the Indebtedness originally secured thereby and any fee incurred in connection with such transaction.

(b) Merger, Etc. The Borrower shall not (i) enter into any merger or consolidation, or liquidate, wind up or dissolve (or suffer any liquidation, wind-up or dissolution), discontinue its business or convey, lease, sell, transfer or otherwise dispose of, in one transaction or series of transactions, all or substantially all of its business or property, whether now or hereafter acquired, or (ii) permit any of its Subsidiaries to do so, if such action could reasonably be expected to have a Material Adverse Effect, except that any wholly-owned Subsidiary of the Borrower may merge into or convey, sell, lease or transfer all or substantially all of its assets to, the Borrower or any other wholly-owned Subsidiary of the Borrower and the Borrower or any of its Subsidiaries may enter into any merger or consolidation so long as in the

case of a transaction involving the Borrower, the Borrower, or in the case of any other transaction, a Subsidiary of the Borrower, is the surviving entity in such transaction and, after giving effect thereto, no Default or Event of Default shall have occurred or be continuing.

(c) Sale-Leasebacks. The Borrower shall not, and shall not permit any of its Subsidiaries to, become liable, directly or indirectly, with respect to any lease, whether an operating lease or a Capital Lease, of any property (whether real or personal or mixed) whether now owned or hereafter acquired (except for property the aggregate value of which at the time such lease is entered into is less than 10% of Consolidated Net Tangible Assets), (i) which the Borrower or such Subsidiary has sold or transferred or is to sell or transfer to any other Person, or (ii) which the Borrower or such Subsidiary intends to use for substantially the same purposes as any other property which has been or is to be sold or transferred by the Borrower or such Subsidiary to any other Person in connection with such lease.

## ARTICLE VI

### EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) The Borrower shall fail to pay when due any principal of any Advance (or, if any such failure is due solely to technical or administrative difficulties relating to the transfer of such amounts, within two Business Days after its due date) or the Borrower shall fail to pay when due any interest on any Advance, any fee (other than the fees referenced in Section 2.03) or any other amount payable by it hereunder or under any Note and five (5) days shall have elapsed from the date such interest, fees or other amounts were due; or with respect to the fees payable pursuant to Section 2.03, the Borrower shall fail to pay any such fee when due and two Business Days shall have elapsed from the Borrower's receipt of notice of such nonpayment from the Agent or any Lender; or

(b) Any representation or warranty made by the Borrower herein or pursuant to this Agreement or any Note (including without limitation in any certificate of the Borrower delivered pursuant hereto) shall prove to have been incorrect in any material respect when made or deemed made; or

(c) The Borrower shall fail to perform any term, covenant or agreement contained in Section 5.01(a)(iv), 5.01(f) or 5.02 on its part to be performed or observed; or

(d) The Borrower shall fail to perform any term, covenant or agreement contained in this Agreement (except those described in clauses (a) and (c) above) and such failure shall continue for 30 days; or

(e) A court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower or any of its Principal Subsidiaries in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the Borrower or such Principal Subsidiary or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of 30 consecutive days; or

(f) The Borrower or any of its Principal Subsidiaries shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of any order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Borrower or such Principal Subsidiary or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action in furtherance of any of the foregoing; or

(g) (A) The Borrower shall fail to make any payment in respect of Indebtedness when due (whether by scheduled maturity, required prepayment, acceleration or otherwise) if the aggregate amount of such payment is \$5,000,000 or more, or (B) any breach, default or event of default shall occur and be continuing (and applicable grace and notice periods shall have expired) under any agreement or indenture relating to any Indebtedness in an aggregate amount of \$5,000,000 or more, and, except in the case of financial covenant defaults, the maturity of any such Indebtedness has been accelerated in accordance with the terms thereof; or

(h) (A) Any Termination Event shall occur, or (B) any Plan shall incur an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived, or (C) the Borrower or any member of its ERISA Controlled Group shall fail to pay when due an amount which it shall have become liable to pay to the PBGC, any Plan or a trust established under Title IV of ERISA, or (D) a condition shall exist by reason of which the PBGC would be entitled to obtain a decree

adjudicating that an ERISA Plan must be terminated or have a trustee appointed to administer any ERISA Plan, or (E) the Borrower or a member of its ERISA Controlled Group suffers a partial or complete withdrawal from a Multiemployer Plan or is in "default" (as defined in Section 4219(c)(5) of ERISA) with respect to payments to a Multiemployer Plan, or (F) a proceeding shall be instituted against the Borrower or any member of its ERISA Controlled Group to enforce Section 515 of ERISA, or (G) any other event or condition shall occur or exist with respect to any Plan, if such events, transactions or conditions set forth in clauses (A) through (G) above could singly or in the aggregate be reasonably expected to have a Material Adverse Effect; or

(i) If there shall remain in force, undischarged, unsatisfied and unstayed, for more than 30 days, whether or not consecutive, any final judgment against the Borrower or any of its Principal Subsidiaries which, when added to any other outstanding final judgments which remain undischarged, unsatisfied and unstayed for more than 30 days against the Borrower or any such Principal Subsidiary, exceeds \$5,000,000;

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the obligation of each Lender to make Advances to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare all Advances, the Notes, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon all Advances, the Notes, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however that in the case of any of the Events of Default specified in clauses (e) or (f) above with respect to the Borrower, (A) the obligation of each Lender to make Advances shall automatically be terminated and (B) the Advances, the Notes, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

## ARTICLE VII

### THE AGENT

SECTION 7.01. Authorization and Action. Each Lender hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be

required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; provided, however, that the Agent shall not be required to take any action that exposes the Agent to personal liability or that is contrary to this Agreement or applicable law. The Agent agrees to give to each Lender prompt notice of each notice given to it by the Borrower pursuant to the terms of this Agreement.

SECTION 7.02. Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may treat the payee of any Note as the holder thereof until the Agent receives and accepts an Assignment and Acceptance entered into by the Lender that is the payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in Section 8.07; (ii) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement on the part of the Borrower or to inspect the property (including the books and records) of the Borrower; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 7.03. Citibank and Affiliates. With respect to its Commitment, the Advances made by it and the Note or Notes issued to it, Citibank shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include Citibank in its individual capacity. Citibank and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Borrower, any of its Subsidiaries and any Person who may do business with or own securities of the Borrower or any such Subsidiary, all as if Citibank were not the Agent and without any duty to account therefor to the Lenders.

SECTION 7.04. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the

financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05. Indemnification. The Lenders agree to indemnify the Agent (to the extent not reimbursed by the Borrower), ratably according to the respective principal amounts of the Committed Notes then held by each of them (or if no Committed Notes are at the time outstanding or if any Committed Notes are held by Persons that are not Lenders, ratably according to the respective amounts of their Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Agent under this Agreement, provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by the Borrower.

SECTION 7.06. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Agent, which shall be (i) a Lender or (ii) if no Lender shall accept appointment as the Agent within 30 days after such resignation or removal, any other Person, which Person, so long as no Default shall have occurred and be continuing, shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be (i) a Lender or (ii) any other Person, which Person, so long as no Default shall have occurred and be continuing, shall be reasonably acceptable to the Borrower. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as

Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

#### ARTICLE VIII

##### MISCELLANEOUS

SECTION 8.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Notes, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Borrower and the Required Lenders, or in the case of Section 2.13 and any Uncommitted Note, the Borrower and the Lender to which such Note is payable, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, that the written consent of the Borrower and all the Lenders shall be required in order to amend or waive any provision of the Agreement or the Notes other than Section 2.13 and the Uncommitted Notes which would have the effect of (a) a reduction in principal, interest or fees payable to the Lenders under this Agreement or the Committed Notes, (b) the postponement of any date fixed for the payment of any principal, interest or fees under this Agreement or the Committed Notes, (c) an increase in the Commitments, (d) amending or waiving compliance with the last sentence of Section 2.01(a), Section 2.08, Section 8.05 or this Section 8.01, or (e) amending the definition of Required Lenders; and provided further that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Agent under this Agreement or any Note.

SECTION 8.02. Notices, etc. All notices and other communications provided for hereunder shall be in writing (including telecopier or telex communication) and mailed, telecopied, telexed or delivered, if to the Borrower, at its address at 1000 Stanley Drive, New Britain, Connecticut 06050, Attention: Secretary, telecopy no. 203-827-3911, with a copy to Craig A. Douglas, Director, Corporate Finance, at the same address and telecopy no. 203-827- 3848; if to any Initial Lender, at its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Agent, at its address at 7th Floor, Zone 1, One Court Square, Long Island City, New York 11120, Attention: Loan Investor Services Department; or, as to the Borrower or the 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 Agent. All such notices and communications shall, when telecopied or telexed, be effective when telecopied (with receipt confirmed by telephone) or confirmed by telex answerback, respectively, and when mailed or delivered, when received, except that notices and communications to the Agent pursuant to Article II, III or VII shall not be effective until

received by the Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

SECTION 8.03. No Waiver; Remedies. No failure on the part of any Lender or the Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04. Costs and Expenses; Breakage Indemnification.

(a) The Borrower agrees to pay on demand all reasonable costs and expenses, if any (including, without limitation, counsel fees and expenses reasonably incurred), of the Agent and each Lender in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, reasonable counsel fees and expenses in connection with the enforcement of rights under this Section 8.04(a).

(b) If any payment, prepayment or conversion of any Eurodollar Rate Advance or a Fixed Rate Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a result of acceleration of the maturity of the Advances and the Notes pursuant to Section 6.01 or for any other reason other than in connection with Section 2.02(c), the Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses which it may reasonably incur as a result of such payment, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund or maintain such Advance.

(c) The Borrower agrees to indemnify and hold harmless the Agent and each Lender and each of their affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of, or in connection with the preparation for a defense of, any investigation, litigation or proceeding arising out of, related to or in connection with the actual or proposed use of the proceeds of the Advances in connection with any acquisition or proposed acquisition by the Borrower or any Subsidiary of the Borrower of another Person or one or more businesses of another Person (whether by means of a stock purchase, asset acquisition or otherwise), whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, shareholders or creditors or an Indemnified Party or any other Person or

any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

SECTION 8.05. Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of setoff, or otherwise) on account of the Committed Advances owing to it (other than pursuant to Section 2.02(d), 2.06, 2.08, 2.10 or 8.04(b)) in excess of its ratable share of payments on account of the Committed Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Committed Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 8.05 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

SECTION 8.06. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Borrower, the Agent and the Lenders and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights or obligations hereunder or under any Note or any interest herein or therein (other than as permitted by Section 5.02(b)) without the prior written consent of the Lenders.

SECTION 8.07. Assignments and Participations. (a) Each Lender may assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Committed Advances owing to it and the Committed Note or Notes held by it); provided, however, that (i) each such assignment (other than assignment to an affiliate of such Lender) shall require the prior written consent of the Borrower, which consent shall not be unreasonably withheld, (ii) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement (other than any right to make Uncommitted Advances, Uncommitted Advances owing to it and Uncommitted Notes), (iii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or an assignment of all of a Lender's rights and obligations under this Agreement, the amount of the Commitment of the

assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, and (iv) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance (which shall include the agreement of the assignee party to such assignment, for the benefit of the Borrower, to be bound by the terms and provisions of this Agreement to the same extent as if it were an original party hereto), together with any Committed Note subject to such assignment and a processing and recordation fee of \$3,000. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vi) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(c) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Committed Note or Notes subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit I hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Agent in exchange for the surrendered Committed Note a new Committed Note to the order of such Eligible Assignee in an amount equal to the Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Lender has retained a Commitment hereunder, a new Committed Note to the order of the assigning Lender in an amount equal to the Commitment retained by it hereunder. Such new Committed Note or Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Committed Note or Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit A hereto. Such Assignment and Acceptance shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Person as a Lender and the resulting adjustment of the Commitments, if any, arising from such assignment of Commitments to such Person.

(d) The Agent shall maintain at its address referred to in Section 8.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Each Lender may sell participations to one or more banks or other financial institutions in all or a portion of its rights and/or obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and the Note or Notes held by it); provided that (i) such Lender's obligations under this Agreement (including, without limitation, its Commitment) shall remain unchanged, (ii) such Lender shall remain solely responsible to the Borrower for the performance of such obligations, (iii) the Borrower shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (iv) such participant's right to consent to any modification, waiver or release of any of the provisions of this Agreement shall be limited to the right to consent to (A) any reduction in principal, interest or fees payable to such Lender under this Agreement, (B) the postponement of any date fixed for the payment of any principal,

interest or fees under this Agreement and (C) increase in the Commitment, and (D) any amendments to the foregoing clauses (A), (B) and (C).

SECTION 8.08. Limitation on Assignments and Participations.

(a) Any Lender may, in connection with any actual or proposed assignment or participation pursuant to Section 8.07, disclose to the actual or proposed assignee or participant any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that the actual or proposed assignee or participant shall have agreed prior to any such disclosure to preserve the confidentiality of any confidential information relating to the Borrower received by it from such Lender or the Borrower.

(b) Notwithstanding anything in Section 8.07 to the contrary, no Lender shall have the right to assign its rights and obligations hereunder or any interest therein or to sell participations to one or more banks or other financial institutions in all or a portion of its rights hereunder or any interest therein where the result of such assignment or participation would be reasonably expected to entitle the Lender to claim additional amounts pursuant to Section 2.02(d), 2.06, 2.08, 2.10, 2.13(f) or 8.04 or would otherwise result in an increase in the Borrower's obligations.

(c) Anything in this Section 8.08 to the contrary notwithstanding, any Lender may assign and pledge all or any portion of its rights to payment of the Advances owing to it hereunder to any Federal Reserve Bank (and its transferees) as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any applicable Operating Circular issued by such Federal Reserve Bank. No such assignment shall have the effect of releasing such Lender from its obligations hereunder.

SECTION 8.09. Withholding. If any Lender, or any Person that becomes a party to this Agreement pursuant to Section 8.07, is not incorporated under the laws of the United States of America or a state thereof, such Person agrees that, prior to the first date on which any payment is due to it hereunder, it will deliver to each of the Borrower and the Agent (i) two duly completed copies of United States Internal Revenue Service Form 1001 or 4224 or successor applicable form, as the case may be, certifying in each case that such Person is entitled to receive payments under this Agreement and the Note or Notes payable to it, without deduction or withholding of any United States federal income taxes, and (ii) an Internal Revenue Service Form W-8 or W-9 or successor applicable form, as the case may be, to establish an exemption from United States backup withholding tax. Each Person which delivers to the Borrower a Form 1001 or 4224 and Form W-8 or W-9 pursuant to the preceding sentence further undertakes to deliver to each of the Borrower and the Agent two further copies of Form 1001 or 4224 and Form W-8 or W-9, or successor applicable forms, or other manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the

Borrower and the Agent, and such extensions or renewals thereof as may reasonably be requested by the Borrower or the Agent, certifying in the case of a Form 1001 or 4224 that such Person is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Person from duly completing and delivering any such form with respect to it and such Person advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax, and in the case of a Form W-8 or W-9, establishing an exemption from United States backup withholding tax.

SECTION 8.10. Mitigation. In the event that any Lender claims any amounts under Sections 2.02(d), 2.06, 2.08, 2.10 or 8.04(b), it shall use all reasonable efforts (consistent with its internal policies and legal and regulatory restrictions) to take actions (including, without limitation, changing the jurisdiction of its Applicable Lending Office) so as to eliminate such additional amounts; provided that such Lender shall not be required to take any action if, in its reasonable judgment, such action would be materially disadvantageous to it.

SECTION 8.11. Governing Law; Waiver of Jury Trial. THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 8.12. Execution in Counterparts. This Agreement may be executed in any number of counterparts each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 8.13. Submission to Jurisdiction. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or any Note. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and a claim that such proceeding brought in such a court has been brought in an inconvenient forum.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective signatories thereunto duly authorized, as of the date first above written.

THE STANLEY WORKS

By /s/ Richard Huck  
-----  
Name: Richard Huck  
Title: Vice President, Finance and  
Chief Financial Officer

\$22,500,000

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

By /s/ Carolyn A. Kee  
-----  
Name: Carolyn A. Kee  
Title: As-Attorney-In-Fact

INITIAL LENDERS

\$17,500,000

WACHOVIA BANK OF GEORGIA, N.A.

By /s/ Terence A. Snellings  
-----  
Name: Terence A. Snellings  
Title: Senior Vice President

\$17,500,000

BANQUE NATIONALE DE PARIS

By /s/ Sophie Revillard Kaufman

-----  
Name: Sophie Revillard Kaufman  
Title: Vice President

By /s/ Gwen Abbott

-----  
Name: Gwen Abbott  
Title: Assistant Vice President

\$10,000,000

BARCLAYS BANK PLC

By /s/ Gary Albanese

-----  
Name: Gary Albanese  
Title: Associate Director

\$17,500,000

FLEET NATIONAL BANK

By /s/ Paul A. Veiga

-----  
Name: Paul A. Veiga  
Title: Vice President

\$17,500,000

ROYAL BANK OF CANADA

By /s/ Preston D. Jones

-----  
Name: Preston D. Jones  
Title: Senior Manager, Corporate Banking

\$17,500,000

MELLON BANK, N.A.

By /s/ John Paul Marotta

-----  
Name: John Paul Marotta  
Title: Assistant Vice President

\$17,500,000

MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK

By /s/ James E. Condon

-----  
Name: James E. Condon  
Title: Vice President

\$12,500,000

STATE STREET BANK & TRUST CO.

By /s/ F. Andrew Beise

-----  
Name: F. Andrew Beise  
Title: Vice President

SCHEDULE I  
ADDRESS AND APPLICABLE LENDING OFFICES

| Name of Lenders<br>And Addresses<br>For Notices   | Domestic<br>Lending<br>Office  | Eurodollar<br>Lending<br>Office  |
|---|--|--|
| <p>=====<br/>Citibank, N.A.<br/>7th Floor, Zone 1<br/>One Court Square<br/>Long Island City, N.Y. 11120<br/><br/>Telecopy: 212-793-7712<br/>Telephone: 212-559-7241/212-559-4424<br/>Attn: Paolo de Alessandrini/<br/>Aaron Kim<br/>=====</p> | <p>=====<br/>Citibank, N.A.<br/>7th Floor, Zone 1<br/>One Court Square<br/>Long Island City, N.Y. 11120<br/><br/>=====</p> | <p>=====<br/>Citibank, N.A.<br/>7th Floor, Zone 1<br/>One Court Square<br/>Long Island City, N.Y. 11120<br/><br/>=====</p>   |
| <p>=====<br/>Banque Nationale<br/>de Paris<br/>499 Park Avenue<br/>New York, N.Y. 10022<br/>Telecopy: 212-415-9606<br/>Telephone: 212-415-9601<br/>Attn: Ms. Sophie Kaufman<br/>=====</p>   | <p>=====<br/>BNP - New York<br/>499 Park Avenue<br/>New York, N.Y. 10022<br/><br/>=====</p>                                | <p>=====<br/>BNP - Georgetown<br/>499 Park Avenue<br/>New York, N.Y. 10022<br/>Telecopy: 212-415-9606<br/>Telephone: 212-415-9601<br/>Attn: Ms. Sophie Kaufman<br/>=====</p> |
| <p>=====<br/>Morgan Guaranty<br/>Trust Company of<br/>New York<br/>60 Wall Street<br/>New York, N.Y. 10260<br/>Telecopy: 212-648-5019<br/>Phone: 212-648-7738<br/>Attn: James Condon<br/>=====</p>  | <p>=====<br/>Loan Department<br/>60 Wall Street<br/>New York, New York 10260<br/><br/>=====</p>                            | <p>=====<br/>c/o J.P. Morgan<br/>Services, Inc.<br/>Euro-Loan Servicing Unit<br/>902 Market Street<br/>Wilmington, DE 19801<br/>=====</p>                                    |

| Name of Lenders<br>And Addresses<br>For Notices  | Domestic<br>Lending<br>Office  | Eurodollar<br>Lending<br>Office   |
|--|--|---|
| State Street Bank & Trust Co.<br>225 Franklin Street<br>Boston, MA 02110-2804<br>Attn: Mr. F. Andrew Beise<br>Telecopy: 617-654-4176<br>Phone: 617-654-3120  | State Street Bank & Trust Co.<br>225 Franklin Street<br>Boston, MA 02110-2804<br>Attn: Mr. F. Andrew Beise<br>Telecopy: 617-654-4176<br>Phone: 617-654-3120              | State Street Bank & Trust Co.<br>225 Franklin Street<br>Boston, MA 02110-2804<br>Attn: Mr. F. Andrew Beise<br>Telecopy: 617-654-4176<br>Phone: 617-654-3120           |
| Royal Bank of Canada<br>One Financial Square<br>23rd Floor<br>New York, New York<br>10005-3531<br>Telecopy: (212) 428-2372<br>Telephone: (212) 428-6311<br>Attn: Manager, Credit<br>Administration | Royal Bank of Canada<br>Grand Cayman (North America<br>No. 1) Branch<br>c/o New York Branch<br>One Financial Square       23rd<br>Floor<br>New York, New York 10005-3531 | Royal Bank of Canada Grand<br>Cayman (North America<br>No. 1) Branch<br>c/o New York Branch<br>One Financial Square<br>23rd Floor<br>New York, New York<br>10005-3531 |
| =====  |  |   |
| Copy to:<br>Royal Bank of Canada<br>One North Franklin<br>Chicago, Illinois 60606<br>Attn: Molly J. Drennan<br>Senior Manager<br>Telecopy: 312-551-0805<br>Telephone: 212-428-6476                 |  |   |

Name of Lenders  
And Addresses  
For Notices

Domestic  
Lending  
Office

Eurodollar  
Lending  
Office

=====

Wachovia Bank of  
Georgia, N.A.  
191 Peachtree St., NE  
Atlanta, GA 30303  
Telecopy: 404-332-6898  
Telephone: 404-332-1090  
Attn: Terrence Snellings  
MC370

=====

=====

Wachovia Bank of  
Georgia, N.A.  
191 Peachtree St.,NE  
Atlanta, GA 30303  
Telecopy: 404-332-6898  
Telephone: 404-332-1090  
Attn: Terrence Snellings  
MC370

=====

=====

Wachovia Bank of  
Georgia, N.A.  
191 Peachtree St.,NE  
Atlanta, GA 30303  
Telecopy: 404-332-6898  
Telephone: 404-332-1090  
Attn: Terrence Snellings  
MC370

=====

SCHEDULE I-3

Name of Lenders  
And Addresses  
For Notices

Domestic  
Lending Office

Eurodollar  
Lending Office

Uncommitted  
Lending Office

Barclays Bank PLC  
P.O. Box 544  
34 Lombard Street  
London EC3V 9EX

Telecopy:  
171-699-2298

Contact:  
Jonathan Gray  
Tel. No. 171-699-2301

Barclays Bank  
222 Broadway  
New York, NY 10038

Contact:  
Terrence Bullock  
Tel. No. 212-412-2554

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

Contacts:  
Kevin Jones  
212-412-5022

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: 8950821

Contacts:  
Tanya Bond  
171-621-4599

Barclays Bank PLC  
8th Floor  
222 Broadway  
New York, N.Y. 10038

Ref: Stanley Works  
Uncommitted Bid Option

Contacts:  
Tom Connolly  
Greg Hurley  
212-412-2091  
Telecopy: \_\_\_\_\_

Name of Lenders  
And Addresses  
For Notices

Domestic  
Lending  
Office

Eurodollar  
Lending  
Office

=====

Mellon Bank, N.A.  
Three Mellon Center  
Pittsburgh, Pa.  
15259-0001

Mellon Bank, N.A.  
Three Mellon Center  
Pittsburgh, Pa.  
15259-0001

Mellon Bank, N.A.  
Three Mellon Center  
Pittsburgh, Pa.  
15259-0001

Telecopy: 412-236-2027  
Telephone: 412-234-8347  
Attn: Rhonda Ashbaugh

Mellon Financial Services  
65 East 55th Street  
New York, NY 10260  
Telecopy: 212-702-5269  
Telephone: 212-702-4029  
Attn: John Paul Marotta

Telecopy: 412-236-2027  
Telephone: 412-234-8347  
Attn: Rhonda Ashbaugh

=====

Fleet National Bank  
777 Main Street  
Hartford, Ct.  
06115

Fleet National Bank  
777 Main Street  
Hartford, Ct.  
06115

Fleet National Bank  
777 Main Street  
Hartford, Ct.  
06115

Telecopy: 860-986-9378  
Telephone: 860-986-4426  
Attn: Paul Veiga

Telecopy: 860-986-9378  
Telephone: 860-986-7098  
Attn: Zoraida Sanchez

Telecopy: 860-986-9378  
Telephone: 860-986-7098  
Attn: Zoraida Sanchez

SCHEDULE I-5

EXHIBIT A

PROMISSORY NOTE  
(Committed Advances)

\$ \_\_\_\_\_

Dated: \_\_\_\_\_

FOR VALUE RECEIVED, the undersigned, The Stanley Works, a Connecticut corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of [NAME OF LENDER] (the "Lender") the principal sum of \$ \_\_\_\_\_ or, if less, the aggregate principal amount of all Committed Advances made by the Lender to the Borrower pursuant to the Credit Agreement referred to below outstanding on the Termination Date, and such amount shall be paid on or prior to the Termination Date as provided in the Credit Agreement referred to below.

Capitalized terms used herein and not defined herein shall have the meanings provided in the Credit Agreement referred to below.

The Borrower promises to pay interest on the principal amount of each Committed Advance from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement referred to below.

Both principal and interest are payable in lawful money of the United States of America to Citibank, N.A., as Agent, at 399 Park Avenue, New York, New York 10043 in same day funds. Each Committed Advance made by the Lender to the Borrower and the maturity thereof, and all payments made on account of the principal amount thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is a part of this Promissory Note, which recordation shall be conclusive and binding absent manifest error but the failure to make such recording shall not have any effect on the Lender's rights hereunder.

This Promissory Note is one of the Committed Notes referred to in, and is entitled to the benefits of, the Facility B (Five Year) Credit Agreement dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement"), among the Borrower, the Lender and certain other lenders parties thereto, and Citibank, N.A., as Agent for the Lender and such other lenders. The Credit Agreement, among other things, (i) provides for the making of Committed Advances by the Lender to the Borrower from time to time in an

aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Committed Advance being evidenced by this Promissory Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

THE STANLEY WORKS

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:



EXHIBIT B-1

RATE REQUEST

Citibank, N.A., as Reference Bank  
under the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

[Date]

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the Facility B (Five Year) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined) among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders and hereby requests notification from you pursuant to Section 2.02(a) thereof of the Eurodollar Rate which is applicable to the Committed Advance to be made (or converted or continued) on \_\_\_\_\_, 19\_\_ in the principal amount of \$\_\_\_\_\_ with the Interest Period of \_\_ months.

Very truly yours,

The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

B1-1

-----  
TO BE COMPLETED AND RETURNED BY  
REFERENCE BANK:

The rate requested above,  
determined as required by  
the Credit Agreement, is \_\_.

CITIBANK, N.A., as Reference Bank

By \_\_\_\_\_  
Authorized Officer

EXHIBIT B-2

NOTICE OF BORROWING

Citibank, N.A., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

[Date]

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the Facility B (Five Year) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Committed Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Committed Borrowing (the "Proposed Committed Borrowing") as required by Section 2.02(b) of the Credit Agreement:

(i) The Business Day of the Proposed Committed Borrowing is \_\_\_\_\_, 19\_\_.

(ii) The Type of Advances comprising the Proposed Committed Borrowing is [Base Rate] [Eurodollar Rate].

(iii) The aggregate amount of the Proposed Committed Borrowing is \$\_\_\_\_\_.

[(iv)] The Initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Committed Borrowing is \_\_ month[s]].

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Committed Borrowing:

(A) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct in all material respects, before and after giving effect to the Proposed Committed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date; and

(B) no event has occurred and is continuing, or would result from such Proposed Committed Borrowing or from the application of the proceeds therefrom, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

The Borrower's account information for funding purposes is Account No. 36852248, Citibank, N.A., ABA No. 021-00-0089, Long Island City, New York, Ref. .

Very truly yours,

The Stanley Works

By \_\_\_\_\_

Name:

Title:

EXHIBIT C

NOTICE OF CONVERSION OR CONTINUATION

[Date]

Citibank, N.A., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the Facility B (Five Year) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders, and hereby gives you notice, pursuant to Section 2.04(b) of the Credit Agreement, that the undersigned hereby elects to [convert][continue] the Committed Borrowing consisting of [Base Rate][Eurodollar Rate] Advances:

(i) which is in the amount of \$\_\_\_\_\_ ;

(ii) which, in the case of a Committed Borrowing consisting of Eurodollar Rate Advances, has an Interest Period of \_\_ month(s);\* and

(iii) which was borrowed (or previously converted or continued) on \_\_\_\_\_, 199\_.

- -----

\* Omit clause (ii) if Committed Borrowing consisted of Base Rate Advances.

Such [conversion][continuation] shall become effective on , 199 , at which time such Advances shall be [converted into][continued as] [Base Rate][Eurodollar Rate] Advances:

- (i) which is in the amount of \$ \_\_\_\_\_;\* and
- (ii) which has an Interest Period of \_\_ month(s)\*\*.

Very truly yours,

The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

- -----

\* Omit clause (i) if conversion or continuation is for entire amount of Committed Borrowing.

\*\* Omit clause (ii) if conversion is into Base Rate Advance.

EXHIBIT D

PROMISSORY NOTE  
(Uncommitted Advances)

\$150,000,000

Dated: October 23, 1996

FOR VALUE RECEIVED, the undersigned, The Stanley Works, a Connecticut corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of [NAME OF LENDER] (the "Lender") the aggregate principal amount of all Uncommitted Advances made by the Lender to the Borrower pursuant to the Credit Agreement referred to below and such amount shall be paid in the amounts and on the dates provided in the Credit Agreement referred to below.

Capitalized terms used herein and not defined herein shall have the meanings provided in the Credit Agreement referred to below.

The Borrower promises to pay interest on the principal amount of each Uncommitted Advance from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement referred to below.

Both principal and interest are payable in lawful money of the United States of America to Citibank, N.A., as Agent, for the account of the Lender, at 399 Park Avenue, New York, New York 10043 in same day funds. Each Uncommitted Advance made by the Lender to the Borrower and the maturity thereof, and all payments made on account of the principal amount thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is a part of this Promissory Note, which recordation shall be conclusive and binding absent manifest error but the failure to make such recording shall not have any effect on the Lender's rights hereunder.

This Promissory Note is one of the Uncommitted Notes referred to in, and is entitled to the benefits of, the Facility B (Five Year) Credit Agreement dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement"), among the Borrower, the Lender and certain other lenders parties thereto, and Citibank, N.A., as Agent for the Lender and such other Lenders. The Credit Agreement, among other things, (i) provides for the making of Uncommitted Advances by the Lender to the Borrower from time to time, the indebtedness of the Borrower resulting from each such Uncommitted Advance being evidenced by this Promissory Note, and (ii) contains provisions for acceleration

of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

THE STANLEY WORKS

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:

D-2



EXHIBIT E

FORM OF QUOTE REQUEST

[Date]

Citibank, N.A., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the Facility B (Five Year) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders, and hereby gives you notice pursuant to Section 2.13 of the Credit Agreement that the undersigned hereby requests offers to make an Uncommitted Borrowing under the Credit Agreement, and in that connection sets forth the terms on which such Borrowing (the "Proposed Uncommitted Borrowing") is requested to be made\*:

(i) The Business Day of the Proposed Uncommitted Borrowing is \_\_\_\_\_, 19\_\_.

(ii) The proposed aggregate amount of the Proposed Uncommitted Borrowing is \$\_\_\_\_\_.

- -----  
\* Information required for a Borrowing may be repeated as necessary if more than one Borrowing is being requested in one Form of Quote Request.

(iii) The duration of the proposed Interest Period for the Proposed Uncommitted Borrowing is \_\_\_\_\_.

(iv) The Type of Proposed Uncommitted Borrowing is [Fixed Rate] [Floating Rate].

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Uncommitted Borrowing:

(A) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct in all material respects, before and after giving effect to the Proposed Uncommitted Borrowing on the same day and to the application of the proceeds therefrom, as though made on and as of such date; and

(B) no event has occurred and is continuing, or would result from such Proposed Uncommitted Borrowing or from the application of the proceeds therefrom, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

Very truly yours,

The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

EXHIBIT F  
FORM OF QUOTE

[Date]

THE STANLEY WORKS  
1000 Stanley Drive  
New Britain, CT 06050

Re: Facility B (Five Year) Credit Agreement dated as of October 23, 1996 among The Stanley Works, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders (as amended, modified or supplemented from time to time, the "Credit Agreement")

Ladies and Gentlemen:

The undersigned, [Name of Lender], refers to the above-referenced Credit Agreement. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. The undersigned hereby makes [a] Quote[s] pursuant to Section 2.13 of the Credit Agreement, in response to the Quote Request made by the Borrower on \_\_\_\_\_, 19\_\_\_\_, and in response thereto, sets forth below the terms on which such Quote[s] [is] [are] made:

(i) The principal amount of the Uncommitted Advance is \$ \_\_\_\_\_.

(ii) The Type of Uncommitted Advance is [Fixed Rate] [Floating Rate].

(iii) The Floating Rate Margin in the case of a Floating Rate Advance, or the Fixed Rate in the case of a Fixed Rate Advance, is \_\_\_\_\_\*.

- - - - -

\* Clauses (i) through (iii) should be repeated as to each additional offer being made.

The undersigned hereby confirms that it is prepared, subject to the conditions set forth in the Credit Agreement, to extend credit to the Borrower upon acceptance by the Borrower of this Quote in accordance with Section 2.13(d) of the Credit Agreement.

Very truly yours,

[NAME OF LENDER]

By \_\_\_\_\_  
Name:  
Title:

EXHIBIT G

FORM OF ACCEPTANCE

[Date]

Citibank, N.A., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
7th Floor, Zone 1  
One Court Square  
Long Island City, New York 11120  
Attn: Mr. John Makrinos

Re: Facility B (Five Year) Credit Agreement, dated as of October 23, 1996 (as amended, modified or supplemented from time to time, the "Credit Agreement") among the undersigned, certain Lenders parties thereto, and Citibank, N.A., as Agent for said Lenders

Ladies and Gentlemen:

The undersigned, The Stanley Works, refers to the above referenced Credit Agreement. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. In accordance with Section 2.13 of the Credit Agreements, we have received [a] Quote/Quotes in connection with our Quote Request, dated , for [an] Uncommitted Borrowing[s] to occur on , and in accordance with Section 2.13(d) of the Credit Agreement, we hereby accept the following offer/offers for the Interest Period of [ ]:

| Principal Amount | Fixed Rate/Floating Rate | Lender |
|------------------|--------------------------|--------|
| -----            | -----                    | -----  |

The Borrower's account information for funding purposes is Account No.  
36852248, Citibank, N.A., ABA No. 021-00-0089, Long Island City, New York,  
Ref.\_\_\_\_\_.

Very truly yours,

By

-----  
Name:

Title:

G-2

EXHIBIT H

FORM OF OPINION OF GENERAL COUNSEL

[Date]

To each of the Lenders parties  
to the Credit Agreement referred  
to below and to  
Citibank, N.A., as Agent  
for said Lenders

Ladies and Gentlemen:

I am the General Counsel of The Stanley Works, a Connecticut corporation (the "Borrower"), and have acted as counsel to the Borrower in connection with the Facility B (Five Year) Credit Agreement, dated as of October 23, 1996 (the "Credit Agreement"), among the Borrower, certain Lenders parties thereto (the "Lenders"), and Citibank, N.A., as Agent for said Lenders.

This opinion is being delivered to you pursuant to Section 3.01(d) of the Credit Agreement. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

In rendering the opinions set forth herein, I have examined and relied on originals or copies of the following:

- (a) a counterpart executed by the Borrower of the Credit Agreement;
- (b) each of the executed Notes and each of the executed Uncommitted Notes;
- (c) copies of the Certificate of Incorporation and By-laws of the Borrower;
- (d) a certified copy of certain resolutions of the Board of Directors of the Borrower;

(e) certificates from public officials in the State of Connecticut as to the good standing of the Borrower in the State of Connecticut; and

(f) such other documents as I have deemed necessary or appropriate as a basis for the opinions set forth below.

In my examination, I have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to me as originals, the conformity to original documents of all documents submitted to me as certified or photostatic copies, and the authenticity of the originals of such copies. As to any facts material to this opinion which I did not independently establish or verify, I have relied upon written statements and certificates of the Borrower and its officers and other representatives and of public officials.

Unless otherwise indicated, references in this opinion to the "Loan Documents" shall mean the documents listed in clauses (a) and (b) above. In addition, references to (i) "Applicable Laws" shall mean the laws and regulations of the States of Connecticut and New York and the United States of America (including, without limitation, Regulations U and X of the Board of Governors of the Federal Reserve System) which are applicable to the transactions contemplated by the Loan Documents; (ii) the term "Governmental Authorities" means any Connecticut, New York and federal executive, legislative, judicial, administrative or regulatory body; (iii) the term "Applicable Contracts" shall mean the agreements and instruments set forth in the index of exhibits to the Borrower's Annual Report on Form 10-K for the year ended \_\_\_\_\_, 19\_\_\_\_ filed with the Securities and Exchange Commission and (iv) the term "Governmental Approval" means any consent, approval, license, authorization or validation of, or filing, recording or registration with, any Governmental Authority pursuant to any Applicable Law.

I am admitted to the bar in the States of Connecticut and New York. This opinion is limited to the laws of the State of Connecticut, the State of New York and the United States of America to the extent specified herein.

In rendering this opinion, I have assumed, with your consent, that:

(a) the execution, delivery or performance by the Borrower of the Loan Documents 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 I express my opinion in paragraph 5 herein) or any agreement or instrument to which the Borrower or the Borrower's property is subject (except and to the extent that I express my opinion in paragraph 5 herein);

(b) and 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 I express my opinion in paragraph 6 herein) is required to authorize or is required in connection with the execution, delivery or performance by the Borrower of any Loan Document or the transactions contemplated thereby.

My opinions are also subject to the following assumptions and qualifications:

(a) the Credit Agreement constitutes the valid and binding obligation of the Lenders and is enforceable against the Lenders in accordance with its terms; and

(b) I express no opinion as to the effect on the opinions herein stated of (i) the compliance or non-compliance of the Lenders with any state, federal or other laws or regulations applicable to the Lenders or (ii) the legal or regulatory status or the nature of the business of the Lenders.

Based upon the foregoing and such investigations that I have deemed necessary, and subject to the limitations, qualifications, exceptions and assumptions set forth herein, I am of the opinion that:

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

2. The Borrower has the corporate power and corporate authority to execute, deliver and perform all of its obligations under the Loan Documents.

3. The execution and delivery of each Loan Document has been duly authorized by all requisite corporate action on the part of the Borrower.

4. Each Loan Document has been duly executed and delivered by the Borrower, constitutes a valid and binding obligation of the Borrower and is enforceable against the Borrower in accordance with its terms, subject to the following qualifications:

(i) enforcement may be limited by applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in equity or at law);

(ii) I express no opinion as to the enforceability of any rights to indemnification provided for in the Loan Documents which may violate the public policy underlying any law, rule or regulation (including any federal or state securities law, rule or regulation); and

(iii) I express no opinion as to the enforceability of Section 8.05 of the Credit Agreement insofar as this provision purports to authorize a Person who has purchased a participation in Advances under the Credit Agreement to set off, appropriate or apply any deposit or property or indebtedness of the Borrower against any obligation of the Borrower.

5. Neither the execution, delivery or performance by the Borrower of the Loan Documents nor the compliance by the Borrower with the terms and provisions thereof will conflict with, contravene, violate or constitute a default under (i) any provision of any Applicable Contract or, to the best of my knowledge, after due investigation, 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 my knowledge, after due investigation, any judicial or administrative order or decree of any Governmental Authority or (iv) its Certificate of Incorporation and By-laws. As used in this paragraph, "due investigation" means solely that, as to agreements and instruments, I have interviewed the officers of the Borrower responsible for its financing activities, and, as to orders and decrees, I have interviewed the lawyers under my supervision.

6. Based on my review of Applicable Laws, but without my 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 any of the Loan Documents by the Borrower.

7. The Borrower is not required to be registered under the Investment Company Act of 1940, as amended.

This opinion is being furnished only to you and is solely for your benefit in connection with the transactions contemplated by the Loan Documents and is not to be used, circulated, quoted, relied upon or otherwise referred to for any other purpose without my prior written consent.

Very truly yours,

EXHIBIT I  
ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of October 23, 1996 (as amended or modified from time to time, the "Credit Agreement") among The Stanley Works, a Connecticut corporation (the "Borrower"), the Lenders (as defined in the Credit Agreement) and Citibank, N.A., as agent for the Lenders (the "Agent"). Terms defined in the Credit Agreement are used herein with the same meaning.

The "Assignor" and the "Assignee" referred to on Schedule I hereto agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement as of the date hereof (other than in respect of Uncommitted Advances and Uncommitted Notes) equal to the percentage interest specified on Schedule 1 hereto of all outstanding rights and obligations under the Credit Agreement (other than in respect of Uncommitted Advances and Uncommitted Notes). After giving effect to such sale and assignment, the Assignee's Commitment and the amount of the Committed Advances owing to the Assignee will be as set forth on Schedule 1 hereto.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto; and (iv) attaches the Committed Note held by the Assignor and requests that the Agent exchange such Committed Note for a new Committed Note payable to the order of the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto or new Committed Notes payable to the order of the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto and the Assignor in an amount equal to the Commitment retained by the Assignor under the Credit Agreement, respectively, as specified on Schedule 1 hereto.

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.01 thereof

and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement as are delegated to the Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the Credit Agreement are required to be performed by it as a Lender; (vi) agrees, for the benefit of the Borrower, that it will be bound by the terms and provisions of the Credit Agreement to the same extent as if it were an original party thereto and (vii) attaches any U.S. Internal Revenue Service forms required under Section 8.09 of the Credit Agreement.

4. Following the execution of this Assignment and Acceptance, it will be delivered to the Agent for acceptance and recording by the Agent. The effective date for this Assignment and Acceptance (the "Effective Date") shall be the date of acceptance hereof by the Agent, unless otherwise specified on Schedule 1 hereto.

5. Upon such acceptance and recording by the Agent, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

6. Upon such acceptance and recording by the Agent, from and after the Effective Date, the Agent shall make all payments under the Credit Agreement and the Committed Notes in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and facility fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and the Committed Notes for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

8. This Assignment and Acceptance may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of Schedule 1 to this Assignment

and Acceptance by telecopier shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused Schedule 1 to this Assignment and Acceptance to be executed by their officers thereunto duly authorized as of the date specified thereon.

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:

Schedule 1  
to  
Assignment and Acceptance

Percentage interest assigned: \_\_\_\_\_ %  
Assignee's Commitment: \$ \_\_\_\_\_  
Aggregate outstanding principal amount  
of Committed \$ \_\_\_\_\_  
Advances assigned:  
Principal amount of Committed Note  
payable to Assignee: \$ \_\_\_\_\_  
Principal amount of Committed Note  
payable to Assignor: \$ \_\_\_\_\_  
Effective Date(1): \_\_\_\_\_, 199\_

[NAME OF ASSIGNOR], as Assignor

By \_\_\_\_\_  
Name:  
Title:

Dated: \_\_\_\_\_, 199\_

[NAME OF ASSIGNEE], as Assignee

By \_\_\_\_\_  
Name:

- - - - -  
(1) This date should be no earlier than five Business Days after the delivery  
of this Assignment and Acceptance to the Agent.

Title:

Dated: \_\_\_\_\_, 199\_

Domestic Lending Office:  
[Address]

Eurodollar Lending Office:  
[Address]

Accepted this \_\_\_\_\_ day  
of \_\_\_\_\_, 199\_

Citibank, N.A., as Agent

By \_\_\_\_\_  
Name:  
Title:

[Approved this \_\_\_\_\_ day  
of \_\_\_\_\_, 199\_

The Stanley Works

By \_\_\_\_\_  
Name:  
Title:

SUPPLEMENTAL RETIREMENT AND SAVINGS PLAN  
FOR SALARIED EMPLOYEES OF THE STANLEY WORKS

BACKGROUND. A. The Stanley Works (together with its wholly-owned U.S. subsidiaries, "Stanley") maintains certain retirement plans for its salaried employees that are designed to meet the requirements of Section 401(a) of the Internal Revenue Code (the "Code").

B. The benefits and contributions that may be provided under such retirement plans are limited on account of Sections 401 and 415 of the Code and certain other provisions of the Code.

C. Stanley maintains this Plan for Salaried Employees of The Stanley Works (the "Supplemental Plan") to provide certain employees with benefits that may not be provided under these retirement plans.

D. Stanley now desires to restate the Supplemental Plan.

TERMS OF THE SUPPLEMENTAL PLAN

1. EFFECTIVE DATE. This amendment and restatement shall be effective January 1, 1997.

2. DEFINITIONS. The following terms have the meanings set forth below.

"APPLICABLE LIMITATION" means each of:

(a) the limitation under Sections 401(a)(30) and 402(g)(1) of the Code on the amount of pre-tax elective contributions that may be made by an employee under the Savings Plan;

(b) the limitation in Section 401(a)(17) of the Code on the amount of compensation of an employee that may be taken into account under the Retirement Plan or Savings Plan;

(c) the limitation under the Savings Plan on the amount of an employee's pre-tax elective contributions or Stanley matching contributions imposed under the nondiscrimination rules of Section 401 of the Code;

(d) the exclusion from the "Compensation" utilized under the Retirement Plan of earnings deferred at the election of an employee pursuant to the Deferred Compensation Plan for Participants in Stanley's Management Incentive Plans; and

(e) the limitations in Section 415 of the Code on the maximum contributions that may be made under the Savings Plan and the maximum benefits that may be provided under the

Retirement Plan.

"COMMITTEE" means the Finance and Pension Committee of the Board of Directors of The Stanley Works.

"ELIGIBLE EMPLOYEE" means a Highly Compensated Employee who is a participant in Stanley's Management Incentive Plans.

"401(K) DOLLAR LIMITS" means the dollar limitation described in paragraph (a) of the definition of Applicable Limitation.

"HIGHLY COMPENSATED EMPLOYEE" means a salaried employee of Stanley who during the applicable Plan Year is a highly compensated employee, as defined in Section 414(q) of the Code (i.e., earning \$80,000 per year or more in W2 income, as adjusted for cost of living, including contributions to health and dental plans and to the Savings Plan).

"PLAN YEAR" means the plan year of a Qualified Plan.

"QUALIFIED PLAN" means each of the Savings Plan and the Retirement Plan.

"RETIREMENT PLAN" means The Stanley Works Retirement Plan.

"SAVINGS PLAN" means The Stanley Works 401(k) Savings Plan.

"SUPPLEMENTAL COMPANY CONTRIBUTION ACCOUNT" means the bookkeeping record that reflects amounts credited under Section 4.2.

"SUPPLEMENTAL EMPLOYEE CONTRIBUTION ACCOUNT" means the bookkeeping record that reflects amounts credited under Section 4.1.

"UNRESTRICTED QUALIFIED PLAN BENEFIT" means the benefit amount that would be payable to an individual under the Retirement Plan but for an Applicable Limitation.

3. PARTICIPATION IN THE SUPPLEMENTAL PLAN. 3.1. ELIGIBLE EMPLOYEE PARTICIPATION. Each Eligible Employee shall become a participant in the Supplemental Plan on the date as of which an amount is first credited on his or her behalf under Section 4.

3.2. REMAINING A PARTICIPANT. Subject to Section 7, an Eligible Employee shall remain a participant until all amounts to which he or she is entitled have been distributed.

4. CREDITING OF BENEFITS; ELECTIONS TO DEFER. 4.1. SUPPLEMENTAL EMPLOYEE CONTRIBUTIONS. (a) EMPLOYEE CONTRIBUTIONS EXCEEDING 401(K) DOLLAR LIMITS. If an Eligible Employee's pre-tax elective contributions under the Savings Plan for a Plan Year are limited by

the 401(k) Dollar Limits, the Eligible Employee may elect to defer a portion of compensation. The amount deferred for a Plan Year under this Section 4.1(a), when added to the pre-tax elective contributions for the Plan Year under the Savings Plan, shall not exceed 15% of compensation.

(b) EMPLOYEE CONTRIBUTIONS EXCEEDING OTHER LIMITS. If an Eligible Employee may not make pre-tax elective contributions under the Savings Plan for a Plan Year as a result of an Applicable Limitation (other than as described in Section 4.1(a)), the Eligible Employee may elect to defer a portion of compensation, up to the amount of such pre-tax elective contributions that could not be made.

(c) CREDITING OF EMPLOYEE CONTRIBUTIONS. Any amount deferred under this Section 4.1 shall be credited to a Supplemental Employee Contribution Account.

4.2. SUPPLEMENTAL COMPANY CONTRIBUTIONS. (a) MATCHING CONTRIBUTIONS FOR EMPLOYEE CONTRIBUTIONS EXCEEDING DOLLAR LIMITS. If an amount is credited to a Supplemental Employee Contribution Account under Section 4.1, there shall also be an amount credited to a Supplemental Company Contribution Account. This amount shall equal the contribution that would have been made by Stanley under the Savings Plan with respect to the amount credited under Section 4.1 if such amount had been contributed to the Savings Plan.

(b) MATCHING CONTRIBUTIONS AFFECTED BY OTHER LIMITS. If a Stanley contribution could not be made under the Savings Plan as a result of an Applicable Limitation (other than as described in Section 4.2(a)), an amount equal to such Stanley contribution that could not be made shall be credited to a Supplemental Company Contribution Account.

4.3. SUPPLEMENTAL RETIREMENT PLAN BENEFITS. If an Eligible Employee's Unrestricted Qualified Plan Benefit exceeds the benefit payable under the Retirement Plan, the excess amount, to the extent vested under Section 5.1, shall be provided under this Supplemental Plan.

4.4. CREDITING OF EARNINGS. A participant's Supplemental Employee Contribution Account and Supplemental Company Contribution Account shall be credited with the rate of return such accounts would have earned if they had been invested under the Savings Plan. In addition, these accounts shall be credited with any additional amount that would have been payable under the Retirement Plan to reflect IPA benefits. For purposes of crediting the rate of return, an amount shall be considered to be credited under Section 4.1 or 4.2 on the date on which it would have been allocated under the Savings Plan but for an Applicable Limitation.

4.5. PROCEDURES FOR ELECTING EMPLOYEE CONTRIBUTIONS. An election to defer compensation under Section 4.1 shall be made, and may be revoked, under rules established by the Committee. Any election to defer compensation shall be effective only as to compensation earned after the date of the election.

5. VESTING SCHEDULE. A participant's vested interest in a benefit provided under this Plan

shall be determined in accordance with the vesting provisions of the particular Qualified Plan with respect to which the benefit is determined.

6. DISTRIBUTIONS. 6.1. TIME FOR PAYING BENEFITS. Amounts credited to a participant's Supplemental Employee Contribution Account or Supplemental Company Contribution Account shall be distributed upon retirement, death, disability or earlier separation from service with Stanley unless either the rules of Section 7.3 apply or the participant elects to have payments made on a later date specified in an election made under Section 6.3. Amounts payable under Section 4.3 (relating to Supplemental Retirement Plan Benefits) shall be distributed when benefit payments commence under the Retirement Plan.

6.2. FORM OF PAYMENT. Benefits attributable to an individual's Supplemental Employee Contribution Account and Supplemental Company Contribution Account shall be distributed in a cash lump sum payment. The benefit determined under Section 4.3 (relating to Supplemental Retirement Plan Benefits) shall be paid in a life annuity unless the participant elects a lump sum payment under Section 6.3.

6.3. ELECTIONS BY PARTICIPANTS. An election to receive a lump sum payment of the benefit payable under Section 4.3 (relating to Supplemental Retirement Plan Benefits) or to defer distributions of the Supplemental Employee Contribution and Supplemental Company Contribution Accounts may be made by a participant in writing prior to the beginning of the one year period that ends on the date on which the participant dies, becomes disabled, or otherwise separates from service. An election may be made after the beginning of such one year period only with the approval of the Committee.

6.4. ADJUSTMENTS TO DISTRIBUTIONS. Upon determining that a participant is indebted to Stanley, the Committee shall be entitled to offset such indebtedness, including any interest accruing thereon, against any payment that would otherwise be made on behalf of the participant.

6.5. DEATH BENEFICIARY. Upon a participant's death, any benefit payment shall be made to the beneficiary determined under the Qualified Plan to which the benefit relates unless the participant designated in writing a different beneficiary to receive such benefit. The benefit shall be paid in the manner provided in Section 6.2.

6.6. WITHHOLDING. To the extent required by law, Stanley shall withhold taxes from any payment due under the Plan.

7. INELIGIBILITY FOR COVERAGE. 7.1. BECOMING INELIGIBLE. Amounts shall not be credited under Section 4.1 or 4.2 upon either (a) a participant ceasing to be an Eligible Employee or (b) the Committee, in its sole discretion, determining that an Eligible Employee may no longer actively participate in the Plan.

7.2. RESUMING PARTICIPATION. An individual described in Section 7.1(a) shall resume

active participation in the Supplemental Plan upon again becoming an Eligible Employee. An individual described in Section 7.1(b) may again become an active participant at the discretion of the Committee. Once an individual resumes participation in the Supplemental Plan, amounts shall again be credited under Section 4.1 upon the filing of an election pursuant to Section 4.5, and amounts may also be credited under Section 4.2.

7.3. DISTRIBUTIONS TO INELIGIBLE INDIVIDUALS. An amount credited under Section 4 on behalf of an individual for a Plan Year in which such individual was not an Eligible Employee shall be distributed in a cash lump sum payment upon the earliest of the following: (a) death, (b) disability, (c) other separation from service with Stanley, or (d) the first day of the calendar year in which the individual attains age 60. No additional amount shall be credited to an account established in the name of an individual described in this subsection unless such individual becomes an Eligible Employee. If the individual becomes an Eligible Employee, amounts credited to an account established in the name of the individual while an Eligible Employee shall be distributed in accordance with Section 6, and other amounts shall be distributed in the manner described above in this subsection.

8. MISCELLANEOUS. 8.1. AMENDMENT OR TERMINATION. The Committee may at any time amend or terminate the Supplemental Plan without the consent of any participant or beneficiary.

8.2. ADMINISTRATION OF THE SUPPLEMENTAL PLAN. The Supplemental Plan shall be administered by the Committee. The Committee shall have the discretionary authority to interpret the Supplemental Plan and to make all determinations regarding eligibility for coverage and the benefits to be paid. Any denial by the Committee of a claim for benefits under the Supplemental Plan shall be stated in writing by the Committee and delivered or mailed to the appropriate individual. Such notice shall set forth the specific reasons for the denial. The Committee shall afford to any participant or beneficiary whose claim for benefits has been denied a reasonable opportunity for a review of the denial of the claim.

8.3. GOVERNING TEXT. The Supplemental Plan, including any amendments, shall constitute the entire agreement between Stanley and any employee, participant or beneficiary regarding the subject matter of the Supplemental Plan. The Supplemental Plan, including any amendments, shall be binding on Stanley, employees, participants, beneficiaries, and their respective heirs, administrators, trustees, successors and assigns.

8.4. ENFORCEABILITY OF PLAN PROVISIONS. If any provision of the Supplemental Plan shall, to any extent, be invalid or unenforceable, the remainder of the Supplemental Plan shall not be affected, and each other provision of the Supplemental Plan shall be valid and enforced to the fullest extent permitted by law.

8.5. RIGHTS OF PARTICIPANT. Any person entitled to receive benefits under the Supplemental Plan shall have the rights of an unsecured general creditor of Stanley.

8.6. CLAIMS OF CREDITORS. The right of any participant or beneficiary to a benefit under the Supplemental Plan shall not be subject to attachment or other legal process for the debts of such participant or beneficiary. Except as provided in Section 6.4, a benefit of a participant or beneficiary shall not be subject to anticipation, alienation, sale, transfer, assignment or encumbrance.

8.7. SPECIAL DISTRIBUTIONS. Whenever, in the opinion of the Committee, a person entitled to receive a benefit under the Plan is unable to manage his or her financial affairs, the Committee may direct that payment be made to a legal representative or relative of such person for his or her benefit. Alternatively, the Committee may direct that any payment be applied for the benefit of such person in such manner as the Committee considers advisable. Any payment made in accordance with this Section shall be a complete discharge of any liability for the making of such payment under the provisions of the Supplemental Plan.

8.8. TERMS OF EMPLOYMENT. Participation in the Supplemental Plan shall not give an individual any right to remain in the service of Stanley, and an individual shall remain subject to discharge to the same extent as if the Supplemental Plan had not been adopted.

SECOND AMENDMENT TO RECEIVABLES PURCHASE AGREEMENT

THIS SECOND AMENDMENT TO RECEIVABLES PURCHASE AGREEMENT (this "Amendment") is made as of the 24th day of April, 1996, among THE STANLEY WORKS, STANLEY MECHANICS TOOLS, INC. (formerly known as Mac Tools, Inc.) and STANLEY-BOSTITCH, INC. (collectively, the "Sellers"); WACHOVIA BANK OF GEORGIA, N.A. as Agent and as Purchaser; BANQUE NATIONALE DE PARIS, NEW YORK BRANCH, ROYAL BANK OF CANADA and FLEET NATIONAL BANK (together with Wachovia Bank of Georgia, N.A., the "Purchasers").

Background:

The Sellers, the Purchasers and the Agent have entered into a certain Receivables Purchase Agreement dated as of December 1, 1993, and amended pursuant to a First Amendment to Receivables Purchase Agreement dated December 20, 1995 (as amended, the "Receivables Purchase Agreement").

The Sellers, the Purchasers and the Agent wish to amend the Receivables Purchase Agreement in certain respects, as hereinafter provided.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Definitions. Capitalized terms used herein which are not otherwise defined herein shall have the respective meanings assigned to them in the Receivables Purchase Agreement.

SECTION 2. Amendments. The Receivables Purchase Agreement is hereby amended as set forth in this Section 2.

2.1. Amendments to Section 5.11. Section 5.11(a) of the Receivables Purchase Agreement is hereby amended and restated in its entirety to read as follows:

(a) "Consolidated Cash Flow" means for any fiscal period the sum of (i) consolidated earnings before income taxes of Stanley and its Consolidated Subsidiaries for such fiscal period (including any earnings representing net gain on disposition of assets) before extraordinary items and their tax effects and before income from discontinued operations; (ii) to the extent such amount is greater than zero, (x) consolidated interest expense for Stanley and its Consolidated Subsidiaries for such fiscal period, minus (y) consolidated interest earnings for Stanley and its Consolidated Subsidiaries for such fiscal period; (iii) consolidated depreciation and amortization for Stanley and its Consolidated Subsidiaries for such fiscal period, (iv) for any fiscal period which includes a fiscal quarter in Fiscal Year 1995, restructuring charges of Stanley and its Consolidated Subsidiaries up to an aggregate of \$85.5 million in Fiscal Year 1995 to the extent such charges are taken into account in determining consolidated earnings during such fiscal quarter, and (v) for any fiscal period which includes a fiscal quarter in Fiscal Year 1996, restructuring charges of Stanley and its Consolidated Subsidiaries up to an aggregate of \$100 million in Fiscal Year 1996 to the extent such charges are taken into account in determining consolidated earnings for such fiscal quarter; and

2.2. Amendment to Schedule 2.12. Schedule 2.12 to the Receivables Purchase Agreement is hereby amended and restated in its entirety to read as set forth on Schedule 2.12 to this Amendment.

2.3. Amendment to Exhibit A-2. Exhibit A-2 to the Receivables Purchase Agreement is hereby amended and restated in its entirety to read as set forth in Exhibit A-2 to this Amendment.

SECTION 3. No Other Amendment. Except for the amendments set forth above, the text of the Receivables Purchase Agreement shall remain unchanged and in full force and effect. This Amendment is not intended to effect, nor shall it be construed as, a novation. The Receivables Purchase Agreement and this Amendment shall be construed together as a single instrument and any reference to the "Agreement" or any other defined term for the Receivables Purchase Agreement in the Receivables Purchase Agreement, any other Facility Document or any certificate, instrument or other document delivered pursuant thereto shall mean the Receivables Purchase Agreement as amended hereby and as it may be amended, supplemented or otherwise modified hereafter.

SECTION 4. Representations and Warranties. The Sellers hereby present and warrant in favor of the Agent and the Purchasers as follows:

(a) No Potential Repurchase Event or Repurchase Event under the Receivables Purchase Agreement has occurred and is continuing on the date hereof;

(b) The Sellers have the corporate power and authority to enter into this Amendment and to do all acts and things as are required or contemplated hereunder to be done, observed and performed by them;

(c) This Amendment has been duly authorized, validly executed and delivered by one or more authorized officers of each of the Sellers and each of this Amendment and the Receivables Purchase Agreement, as amended hereby constitutes the legal, valid and binding obligation of the Sellers enforceable against each of them in accordance with its terms; provided, that the enforceability of each of this Amendment and the Receivables Purchase Agreement as amended hereby is subject to general principles of equity and to bankruptcy, insolvency and similar laws affecting the enforcement of creditors' rights generally; and

(d) The execution and delivery of this Amendment and the Sellers' performance hereunder and under the Receivables Purchase Agreement as amended hereby do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over the Sellers other than those which have already been obtained or given, nor be in contravention of or in conflict with the respective Articles of Incorporation (or equivalent organizational document) or Bylaws of the Sellers, or the provision of any statute, or any judgment, order or indenture, instrument, agreement or undertaking, to which any Seller is a party or by which any Seller's assets or properties are or may become bound.

SECTION 5. Counterparts. This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same agreement.

SECTION 6. Governing Law. This Amendment shall be deemed to be made pursuant to the laws

of the State of Georgia with respect to agreements made and to be performed wholly in the State of Georgia and shall be construed, interpreted, performed and enforced in accordance therewith.

SECTION 7. Effective Date. This Amendment shall become effective as of the date first set forth above, upon receipt by the Agent from each of the parties hereto of either a duly executed signature page from a counterpart of this Amendment or a facsimile transmission of a duly executed signature page from a counterpart of this Amendment, signed by such party.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

SELLERS:

THE STANLEY WORKS

By: Richard Huck  
-----  
Its: Vice President, Finance and  
-----  
Chief Financial Officer  
-----

STANLEY-BOSTITCH, INC.

By: Richard Huck  
-----  
Its: Vice President, Finance  
-----

STANLEY MECHANICS TOOLS, INC.

By: Richard Huck  
-----  
Its: Vice President, Finance  
-----

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WACHOVIA BANK OF GEORGIA, N.A.  
as Agent and as a Purchaser

By: Terence A. Snellings  
-----  
Title: Senior Vice President  
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BANQUE NATIONALE DE PARIS,  
NEW YORK BRANCH, as a Purchaser

By: Richard L. Sted  
-----  
Title: Senior Vice President  
-----

and

By: Sophie Revillard Kaufman  
-----  
Title: Vice President  
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ROYAL BANK OF CANADA,  
as a Purchaser

By: Sheryl L. Greenberg

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Title: Manager  
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FLEET NATIONAL BANK  
purchaser

By: Paul A. Veiga

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Title: Vice President  
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SCHEDULE 2.12

Principal Offices, Location of Records, Etc.

A. Principal Offices and Exclusive Location of Records:

The Stanley Works  
1000 Stanley Drive  
New Britain, Connecticut 06053  
Attention: Director, Corporate Finance

Stanley-Bostitch, Inc.  
Route 2, Briggs Drive  
East Greenwich, Rhode Island 02818  
Attention: Credit Manager

Stanley Mechanics Tools, Inc.  
4635 Hilton Corporate Drive  
Columbus, Ohio 43232

B. Federal Employment Identification Numbers:

|                               |            |
|-------------------------------|------------|
| The Stanley Works             | 06-0548860 |
| Stanley Mechanics Tools, Inc. | 06-1017406 |
| Stanley-Bostitch, Inc.        | 05-0419891 |

ADOPTED--DECEMBER 19, 1990  
AMENDED--FEBRUARY 27, 1991  
APPROVED BY SHAREHOLDERS--APRIL 17, 1991  
AMENDED--OCTOBER 26, 1994  
APPROVED BY SHAREHOLDERS--APRIL 19, 1995  
AMENDED--OCTOBER 23, 1996

THE STANLEY WORKS  
1990 STOCK OPTION PLAN

ARTICLE I.

PURPOSE AND SCOPE OF THE PLAN

1.01 Purpose. The purpose of The Stanley Works 1990 Stock Option Plan (the "Plan") is to promote the long-term success of The Stanley Works and its subsidiaries by providing financial incentives to key employees who are in a position to make significant contributions toward such success. The Plan is designed to attract and retain key employees and to encourage them to acquire a proprietary interest in the Company and thereby to increase their personal interest in the long-term success of the Company.

1.02 Definitions. Unless the context clearly indicates otherwise, the following terms have the meanings set forth below:

"Board of Directors" or "Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Compensation and Organization Committee of the Board, no member of which shall be an Employee.

"Common Stock" means the common stock of the Company, par value \$2.50 per share.

"Company" means The Stanley Works, a Connecticut corporation.

"Disability", as applied to a Grantee, means permanent and total disability as defined in Section 22(e)(3) of the Code.

"Employee" means any full-time employee of the Company or any of its subsidiaries, as defined in Section 424(f) of the Code.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" means the mean average of the high and the low price of a share of the Common Stock as quoted on the New York Stock Exchange Composite Tape on the date as of which fair market value is to be determined or, if there is no trading of Common Stock on such date, such mean average of the high and the low price on the next preceding date on which there was such trading.

"Grant Date", as used with respect to a particular Option, means the date on which such Option is granted by the Committee (or in certain cases, the Committee's delegate) pursuant to the Plan.

"Grantee" means an individual to whom an Option has been granted by the Committee (or in certain cases, the Committee's delegate) pursuant to the Plan.

"Immediate family members" of a Grantee means the Grantee's children, grandchildren and spouse.

"Key Employee" means any Employee who, in the judgment of the Committee, is in a position to contribute significantly to the growth and prosperity of the Company.

"Option" means an option, granted by the Committee (or in certain cases, the Committee's delegate) pursuant to Article II, to purchase shares of Common Stock.

"Incentive Stock Option" means an Option that qualifies as an Incentive Stock Option as described in Section 422 of the Code.

"Non-qualified Stock Option" means any Option other than an Incentive Stock Option.

"Option Period" means the period beginning on the Grant Date and ending the day prior to the tenth anniversary of the Grant Date.

"Plan" means The Stanley Works 1990 Stock Option Plan as amended from time to time.

"Retirement", as applied to an Employee, shall have the meaning provided under the qualified pension plan applicable to such Employee.

#### 1.03 Aggregate Limitation.

(a) The aggregate number of shares of Common Stock with respect to which Options may be granted shall not exceed 6,175,000 shares, subject to adjustment in accordance with Section 3.04. No participant may receive, under the Plan, for any Calendar Year Options the aggregate of which shall exceed 50,000 shares, which is .8% of the shares authorized for issuance hereunder.

(b) Any shares of Common Stock to be delivered by the Company upon the

exercise of Options shall be issued from the Company's authorized but unissued shares of Common Stock or from shares of Common Stock held in the treasury, at the discretion of the Board.

(c) In the event that any Option expires, lapses or otherwise terminates prior to being fully exercised, any share of Common Stock allocable to the unexercised portion of such Option may again be made subject to an Option.

1.04 Administration of the Plan. The Plan shall be administered by the Committee, which shall determine Key Employees of the Company to whom, and the times at which, Options shall be granted and the number of shares of Common Stock to be subject to each such Option and the terms of such awards, and the waiver or acceleration thereof, taking into account the nature of the services rendered by the Employee, the Employee's potential contribution to the long-term success of the Company and such other factors as the Committee in its discretion shall deem relevant. The Committee shall have the power to interpret the Plan and establish rules and regulations relating to it, to prescribe the terms and provisions of agreements for the grant of Options, to accelerate the exercisability or vesting of all or any portion of any Option or to extend the period during which an Option is exercisable and to make all other determinations necessary or advisable in order to administer the Plan. The Committee shall also have the power to delegate to the Chief Executive Officer, the Chief Operating Officer, or the Secretary the power of the Committee hereunder, provided that such delegation does not include the power to grant to any Grantee an Incentive Stock Option nor the power to grant an Option to a Grantee who is an officer of the Company.

1.05 Effective Date and Duration of Plan. The Plan became effective upon its adoption by the Board and was approved by the shareholders of the Company on April 17, 1991. Unless previously terminated by the Board, the Plan shall terminate, as to any shares as to which Options have not theretofore been granted, on the tenth anniversary of its adoption by the Board. The amendments to the Plan contained in Sections 1.02, 1.03, 1.04, 2.02(f), 2.02(g) and 2.02(h) are effective upon adoption by the Board only to grants of Options occurring on or after October 26, 1994, provided that such amendments to the Plan and any grant of Options after that date are subject to the approval of such amendments to the Plan by the Shareholders of the Company.

## ARTICLE II.

### STOCK OPTIONS

2.01 Grant of Options. Key Employees shall be eligible to receive Options under the Plan. Directors who are not Employees shall not be eligible to receive Options.

Each Option shall be exercisable from time to time during such periods and in such manner and number of shares as determined by the Committee (or in certain cases the Committee's delegate) and set forth in the Agreement evidencing such Option. The date of exercise shall be the date on which notice thereof is received by the Company so long as

payment is received by the Company at the same time or promptly thereafter. The term of each Option shall be determined by the Committee (or in certain cases, the Committee's delegate), but in no event shall the term of an Option exceed ten (10) years.

#### 2.02 Option Requirements.

(a) Each Option shall be designated as an Incentive Stock Option or a Non-Qualified Stock Option and shall be evidenced by a written instrument specifying the number of shares of Common Stock that may be purchased by its exercise and containing such terms and conditions consistent with the Plan as the Committee (or in certain cases, the Committee's delegate) may determine.

(b) An Option shall not be granted on or after the tenth anniversary of the date upon which the Plan is adopted by the Board or, if earlier, the tenth anniversary of the date upon which the Plan is approved by the shareholders of the Company.

(c) An Option shall not be exercisable after the expiration of the Option Period.

(d) The Committee (or in certain cases, the Committee's delegate) may provide, in the instrument evidencing an Option, for the lapse of the Option, prior to the expiration of the Option Period, upon the occurrence of any event specified by the Committee.

(e) The option price per share of Common Stock shall be not less than the Fair Market Value of a share of Common Stock on the Grant Date.

(f) An Option shall not be transferable other than by will or the laws of descent and distribution and, during the Grantee's lifetime, shall be exercisable only by the Grantee, except that the Committee (or in certain cases, the Committee's delegate) may:

- (i) permit exercise, during the Grantee's lifetime, by the Grantee's guardian or legal representative;
- (ii) permit transfer, upon the Grantee's death, to beneficiaries designated by the Grantee in a manner authorized by the Committee (or in certain cases, the Committee's delegate), provided that the Committee determines that such exercise and such transfer are consonant with requirements for exemption from Section 16(b) of the Exchange Act and, with respect to an Incentive Stock Option, the requirements of Section 422(b)(5) of the Code; and
- (iii) grant Non-qualified Stock Options that are transferable, or amend outstanding Non-Qualified Stock Options to make them so transferable, without payment of consideration, to immediate family members of the Grantee or to trusts or partnerships for such family members.

(g) Upon the termination of a Grantee's employment by the Company or any of its subsidiaries for any reason other than death, the Grantee may exercise an Option until the earlier of the expiration of its original term or:

- (i) If such termination is due to Retirement, 3 months after such termination in the case of the exercise of an Incentive Stock Option, and such period of time as determined by the Committee (or in certain cases, the Committee's delegate) and set forth in the Agreement evidencing such Option in the case of the exercise of a Non-Qualified Stock Option;
- (ii) If such termination is due to Disability, one 1 year after such termination in the case of the exercise of an Incentive Stock Option and such period of time as determined by the Committee (or in certain cases, the Committee's delegate) and set forth in the Agreement evidencing such Option in the case of the exercise of a Non-Qualified Stock Option;
- (iii) If such termination is for any other reason, 2 months after such termination; and
- (iv) An Incentive Stock Option not exercised within 3 months 12 months in the case of Disability or death) after the date of termination due to Disability, Retirement or death may be exercised within such period of time as determined by the Committee and set forth in the Agreement evidencing such Option (as the permitted period of exercise in such circumstances of a Non-qualified Stock Option) after the date of such termination but no longer will be eligible for the treatment afforded Incentive Stock Options under Section 422 of the Code.

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

(h) If a Grantee should die while employed by the Company or any subsidiary of the Company or after Disability or Retirement, any Option previously granted to the Grantee under this Plan may be exercised by the person designated in such Grantee's last will and testament or, in the absence of such designation, by the Grantee's estate, to the full extent that such Option could have been exercised by such Grantee immediately prior to the Grantee's death, but not later than the anniversary of the Grantee's death in the case of the exercise of an Incentive Stock Option and such period of time as determined by the Committee and set forth in the Agreement evidencing such Option in the case of the exercise of a Non-qualified Stock Option.

(i) A person electing to exercise an Option shall give written notice, in such form as the Committee may require, of such election to the Company and shall tender to the Company at the time of such notice or promptly thereafter the full purchase price of the shares

of Common Stock for which the election is made. Payment of the purchase price shall be made in cash or in such other form as the Committee may approve, including shares of Common Stock valued as provided in Section 3.02 hereof or a combination of cash and/or such other form of property.

#### 2.03 Incentive Stock Option Requirements.

(a) An Option designated by the Committee as an "Incentive Stock Option" is intended to qualify as an "incentive stock option" within the meaning of Subsection (b) of Section 422 of the Code and shall satisfy, in addition to the conditions of Section 2.02, the conditions set forth in this Section 2.03.

(b) An Incentive Stock Option shall not be granted to an individual who, on the date of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or any subsidiary corporation.

(c) The aggregate Fair Market Value, determined on the Grant Date, of the shares of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Grantee during any calendar year (under all such plans of the Grantee's employer corporation and its parent and subsidiary corporations) shall not exceed \$100,000.

### ARTICLE III.

#### GENERAL PROVISIONS

##### 3.01 Exercise of Options.

(a) No Option may be exercised prior to the approval of the Plan by the Company's shareholders.

(b) No Option may at any time be exercised with respect to a fractional share or exercised in part with respect to the lesser of 100 shares or the balance of the shares then covered by the Option. No fractional shares shall be issued and the Committee shall determine whether cash shall be paid in lieu of such fractional shares or such fractional shares shall be eliminated.

(c) No shares shall be delivered pursuant to the exercise of any Option, in whole or in part, until qualified for delivery under such securities laws and regulations as the Committee may deem to be applicable thereto and until payment in full of the option price is received by the Company in cash, by check or in stock as provided in Section 3.02 hereof or, if authorized by the Committee's regulations and accomplished in accordance therewith, by delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company sale or loan proceeds sufficient to pay the option price. Neither a Grantee nor such Grantee's legal representative, legatee or distributee shall be or be deemed to be a holder of any shares subject to such Option unless and until a

certificate or certificates therefor is issued in his or her name or in the name of a person designated by him or her.

3.02 Stock as Form of Exercise Payment. A Grantee may elect to use Common Stock valued at the Fair Market Value on the last business day preceding the exercise date to pay all or part of the exercise price of an Option, subject to such conditions as the Committee may impose through the adoption of rules or regulations or otherwise; provided, however, that such form of payment shall not be permitted unless at least one hundred 100 shares of Common Stock are delivered for such purpose and the shares delivered have been held by the Grantee for at least 6 months.

3.03 Withholding Taxes for Awards. Each Grantee exercising an Option as a condition to such exercise shall pay to the Company the amount, if any, required to be withheld from distributions resulting from such exercise under applicable Federal and State income tax laws ("Withholding Taxes"). Such Withholding Taxes shall be payable as of the date income from such exercise is includable in the Grantee's gross income for Federal income tax purposes (the "Tax Date"). The Committee may establish such procedures as it deems appropriate for the settling of withholding obligations with shares of Common Stock, including, without limitation, the establishment of such procedures as may be necessary to comply with Rule 16b-3.

3.04 Changes in Common Stock. In the event of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split or other change in corporate structure or capitalization affecting the Common Stock, such appropriate adjustment shall be made in the number, kind, option price, etc. of shares subject to Options, including appropriate adjustment in the maximum number of shares referred to in Section 1.03 of the Plan, as may be determined by the Committee.

#### 3.05 Change in Control.

(a) Upon the occurrence of a Change in Control (as hereinafter defined), all Options shall become immediately exercisable in full for the remainder of their terms and Grantees shall have the right to have the Company purchase their Options for cash for a period of thirty (30) days following a Change in Control at the Acceleration Price (as hereinafter defined).

(b) (1) The "Acceleration Price" is the excess over the exercise price of the highest of the following on the date of a Change in Control:

- (i) the highest reported sales price of a share of the Common Stock within the 60 days preceding the date of a Change in Control, as reported on any securities exchange upon which the Common Stock is listed,
- (ii) the highest price of a share of the Common Stock reported in a Schedule 13D or an amendment thereto as paid within the 60 days preceding the date of the Change in Control,

- (iii) the highest tender offer price paid for a share of the Common Stock, and
- (iv) any cash merger or similar price paid for a share of the Common Stock.

(2) For Incentive Stock Options, the Acceleration Price is limited to the spread between the Fair Market Value on the date of exercise and the option price.

(c) A "Change in Control" is the occurrence of any one of the following events:

- (i) any "person," as such term is defined in Section 3(a)(9) and modified and used in Sections 13(d) and 14(d) of the Exchange Act (other than a Grantee, the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company (or of any subsidiary of the Company), or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities;
- (ii) during any period of two consecutive years individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (iii), (iv) or (v) of this definition) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least 2/3 of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;
- (iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 75% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (with the exceptions specified in clause (i) of this definition) acquires 25% or more of the combined voting power of the Company's then outstanding securities;

- (iv) the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or
- (v) the Company consummates a merger, consolidation, stock dividend, stock split or combination, extraordinary cash dividend, exchange offer, issuer tender offer or other transaction effecting a recapitalization of the Company (or similar transaction) (the "Transaction") and, in connection with the Transaction, a Designated Downgrading occurs with respect to the unsecured general obligations of the Company (the "Securities"), as described below:

(A) If the rating of the Securities by both Rating Agencies (defined hereinafter) on the date 60 days prior to the public announcement of the Transaction (a "Base Date") is equal to or higher than BBB Minus (as hereinafter defined), then a "Designated Downgrading" means that the rating of the Securities by either Rating Agency on the effective date of the Transaction (or, if later, the earliest date on which the rating shall reflect the effect of the Transaction) (as applicable, the "Transaction Date") is equal to or lower than BB Plus (as hereinafter defined); if the rating of the Securities by either Rating Agency on a Base Date is lower than BBB Minus, then a "Designated Downgrading" means that the rating of the Securities by either Rating Agency on the Transaction Date has decreased from the rating by such Rating Agency on the Base Date. In determining whether the rating of the Securities has decreased, a decrease of one gradation (+ and - for S&P and 1, 2 and 3 for Moody's, or the equivalent thereof by any substitute rating agency referred to below) shall be taken into account;

(B) "Rating Agency" means either Standard & Poor's Corporation or its successor ("S&P") or Moody's Investor Service, Inc. or its successor ("Moody's");

(C) "BBB Minus" means, with respect to ratings by S&P, a rating of BBB- and, with respect to ratings by Moody's, a rating of Baa3, or the equivalent thereof by any substitute agency referred to below;

(D) "BB Plus" means, with respect to ratings by S&P, a rating of BB+ and, with respect to ratings by Moody's, a rating of BBB3, or the equivalent thereof by any substitute agency referred to below;

(E) The Company shall take all reasonable action necessary to enable each of the Rating Agencies to provide a rating for the Securities, but, if either or both of the Rating Agencies shall not make such a rating

available, a nationally-recognized investment banking firm shall select a nationally-recognized securities rating agency or two nationally-recognized securities rating agencies to act as substitute rating agency or substitute rating agencies, as the case may be.

3.06 Additional Conditions. Any shares of Common Stock issued or transferred under any provision of the Plan may be issued or transferred subject to such conditions (including, without limitation, restrictions on transferability), in addition to those specifically provided in the Plan, as the Committee may impose.

3.07 No Right to Employment. Nothing in the Plan or any instrument executed pursuant hereto shall confer upon any Employee any right to continue in the employ of the Company or any of its subsidiaries nor shall anything in the Plan affect the right of the Company or any of its subsidiaries to terminate the employment of any Employee, with or without cause.

3.08 Legal Restrictions. The Company will not be obligated to issue shares of Common Stock or make any payment if counsel to the Company determines that such issuance or payment would violate any law or regulation of any governmental authority or any agreement between the Company and any national securities exchange upon which the Common Stock is listed. In connection with any stock issuance or transfer, the person acquiring the shares shall, if requested by the Company, give assurances satisfactory to counsel to the Company regarding such matters as the Company may deem desirable to assure compliance with all legal requirements. The Company shall in no event be obliged to take any action in order to permit the exercise of any Option.

3.09 No Rights as Shareholders. No Grantee, and no beneficiary or other person claiming through a Grantee, shall have any interest in any shares of Common Stock allocated for the purposes of the Plan or subject to any Option until such shares of Common Stock shall have been transferred to the Grantee or such person. Furthermore, the existence of the Options shall not affect: the right or power of the Company or its shareholders to make adjustments, recapitalization, reorganizations or other changes in the Company's capital structure; the dissolution or liquidation of the Company, or sale or transfer of any part of its assets or business; or any other corporate act, whether of a similar character or otherwise.

3.10 Choice of Law. The validity, interpretation and administration of the Plan and of any rules, regulations, determinations or decisions made thereunder, and the rights of any and all persons having or claiming to have any interest therein or thereunder, shall be determined exclusively in accordance with the laws of the State of Connecticut (regardless of the laws that might be applicable under principles of conflicts of laws). Without limiting the generality of the foregoing, the period within which any action in connection with the Plan must be commenced shall be governed by the laws of the State of Connecticut (regardless of the laws that might be applicable under principles of conflicts of laws), without regard to the place where the act or omission complained of took place, the residence of any party to such action or the place where the action may be brought.

3.11 Amendment, Suspension and Termination of Plan. The Board may at any time terminate, suspend or amend the Plan; however, no such amendment shall, without the approval of the shareholders of the Company:

- (i) increase the aggregate number of shares which may be issued in connection with Options;
- (ii) change the Option exercise price;
- (iii) increase the maximum period during which Options may be exercised;
- (iv) extend the effective period of the Plan; or
- (v) materially modify the requirements as to eligibility for participation in the Plan.

## Exhibit 11

COMPUTATION OF EARNINGS PER SHARE  
THE STANLEY WORKS AND SUBSIDIARIES  
(dollars and shares in thousands except per share amounts)

|  | Fiscal Year Ended   |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | December 28<br>1996 | December 30<br>1995 | December 31<br>1994 |
| Weighted average shares outstanding  | 88,824              | 88,719              | 89,550              |
| Net earnings   | \$96,927            | \$59,099            | \$125,296           |
| Net earnings per share   | \$1.09              | \$0.67              | \$1.40              |
| Primary:   |                     |                     |                     |
| Weighted average shares outstanding  | 88,824              | 88,719              | 89,550              |
| Dilutive common stock equivalents -<br>based on the treasury stock method<br>using average market price  | 1,030               | 1,120               | 1,106               |
|  | 89,854              | 89,839              | 90,656              |
| Net earnings per share   | \$1.08              | \$0.66              | \$1.38              |
| Fully Diluted:   |                     |                     |                     |
| Weighted average shares outstanding  | 88,824              | 88,719              | 89,550              |
| Dilutive common stock equivalents -<br>based on the treasury stock method<br>using the quarter end market price<br>if higher than average market price | 1,049               | 1,202               | 1,114               |
|  | 89,873              | 89,921              | 90,664              |
| Net earnings per share   | \$1.08              | \$0.66              | \$1.38              |

Note: This calculation is submitted in accordance with Regulation S-K item 601(b)(11) although not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because it results in dilution of less than 3%.

The weighted average number of shares for prior periods have been restated to give retroactive effect to the two-for-one stock split declared on April 17, 1996.

THE STANLEY WORKS AND SUBSIDIARIES  
 COMPUTATION OF EARNINGS TO FIXED CHARGES  
 (in Millions of Dollars)

|   | Fiscal Year Ended   |                     |                     |                   |                   |
|---|---------------------|---------------------|---------------------|-------------------|-------------------|
|   | December 28<br>1996 | December 30<br>1995 | December 31<br>1994 | January 1<br>1994 | January 2<br>1993 |
| Earnings before income taxes and<br>cumulative adjustment for accounting change | \$174.2             | \$112.8             | \$201.8             | \$148.0           | \$158.1           |
| Add:  |                     |                     |                     |                   |                   |
| Portion of rents representative of<br>interest factor                           | \$12.2              | \$13.4              | \$12.7              | \$11.7            | \$12.2            |
| Interest expense  | 27.6                | 35.2                | 33.1                | 31.4              | 32.6              |
| Amortization of expense on<br>long-term debt                                    | 0.2                 | 0.3                 | 0.2                 | 0.4               | 0.7               |
| Amortization of capitalized interest  | 0.3                 | 0.3                 | 0.4                 | 0.4               | 0.4               |
| Income as adjusted  | \$214.5             | \$162.0             | \$248.2             | \$191.9           | \$204.0           |
| Fixed charges:  |                     |                     |                     |                   |                   |
| Interest expense  | \$27.6              | \$35.2              | \$33.1              | \$31.4            | \$32.6            |
| Amortization of expense<br>on long-term debt                                    | 0.2                 | 0.3                 | 0.2                 | 0.4               | 0.7               |
| Capitalized interest  | 0.2                 | 0.1                 | -                   | 0.1               | 0.1               |
| Portion of rents representative of<br>interest factor                           | 12.2                | 13.4                | 12.7                | 11.7              | 12.2              |
| Fixed charges   | \$40.2              | \$49.0              | \$46.0              | \$43.6            | \$45.6            |
| Ratio of earnings to fixed charges  | 5.34                | 3.31                | 5.40                | 4.40              | 4.47              |

The management of The Stanley Works is responsible for the preparation, integrity and objectivity of the accompanying financial statements. The statements were prepared in accordance with generally accepted accounting principles. Preparation of financial statements and related data involves our best estimates and the use of judgment. Management also prepared the other information in the Annual Report and is responsible for its accuracy and consistency with the financial statements.

The company maintains a system of internal accounting controls which is designed to provide reasonable assurance, at appropriate cost, as to the reliability of financial records and the protection of assets. This system includes monitoring by a staff of internal auditors. It is further characterized by care in the selection of competent financial managers, by organizational arrangements that provide for delegation of authority and divisions of responsibility and by the dissemination of policies and procedures throughout the company.

Management is also responsible for fostering a strong, ethical climate so that the company's affairs are conducted according to the highest standards of personal and business conduct. This responsibility is reflected in the company's Business Conduct Guidelines which are publicized throughout the organization. The company has a long-established reputation of integrity in business conduct and maintains a systematic program to assess compliance with these policies.

The adequacy of Stanley's internal accounting controls, the accounting principles employed in its financial reporting and the scope of independent and internal audits are reviewed by the Audit Committee of the Board of Directors, consisting solely of outside directors. Both the independent auditors and our internal auditors have unrestricted access to the Audit Committee, and they meet with it periodically, with and without management present.

/s/ John M. Trani

John M. Trani  
Chairman and  
Chief Executive Officer

/s/ Richard Huck

Richard Huck  
Vice President, Finance and  
Chief Financial Officer

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS  
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The Shareholders  
The Stanley Works

We have audited the accompanying consolidated balance sheets of The Stanley Works and subsidiaries as of December 28, 1996 and December 30, 1995, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for each of the three fiscal years in the period ended December 28, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Stanley Works and subsidiaries at December 28, 1996 and December 30, 1995, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 28, 1996, in conformity with generally accepted accounting principles.

Hartford, Connecticut  
January 23, 1997

/s/ Ernst & Young LLP

BUSINESS SEGMENT INFORMATION

INDUSTRY SEGMENTS

The company operates worldwide in three reportable segments: Tools, Hardware and Specialty Hardware. Additional detail is provided for the Consumer, Industrial and Engineered tool categories within the Tools segment.

GEOGRAPHIC AREAS

The company has manufacturing and warehouse facilities and sales offices in the United States, Europe and Other Areas. The company's operations in Europe are principally located in the European Economic Community. Other Areas principally include Canada, Australia, the Far East and Latin America.

GENERAL INFORMATION

Intercompany sales between geographic areas and between business segments were not significant. Segment information includes insignificant allocations of expenses and assets shared by the segments.

Operating profit represents net sales less operating expenses. In computing operating profit, the following have been excluded: net corporate expenses, interest expense and income taxes.

Identifiable assets are those assets used in the company's operations in each segment or area.

INDUSTRY SEGMENTS

| (MILLIONS OF DOLLARS)                | 1996       | 1995       | 1994       |
|--------------------------------------|------------|------------|------------|
| <b>NET SALES</b>                     |            |            |            |
| Tools                                |            |            |            |
| Consumer                             | \$ 734.3   | \$ 738.9   | \$ 716.0   |
| Industrial                           | 555.5      | 552.3      | 524.4      |
| Engineered                           | 686.4      | 678.3      | 643.5      |
| Total Tools                          | 1,976.2    | 1,969.5    | 1,883.9    |
| Hardware                             | 340.4      | 324.2      | 311.1      |
| Specialty Hardware                   | 354.2      | 330.6      | 315.9      |
| Consolidated                         | \$ 2,670.8 | \$ 2,624.3 | \$ 2,510.9 |
| <b>OPERATING PROFIT</b>              |            |            |            |
| Tools                                | \$ 196.6   | \$ 154.9   | \$ 217.0   |
| Hardware                             | 42.4       | 13.4       | 33.3       |
| Specialty Hardware                   | 12.2       | 17.8       | 24.0       |
| Total                                | 251.2      | 186.1      | 274.3      |
| Net corporate expenses               | (48.9)     | (37.6)     | (38.8)     |
| Interest expense                     | (28.1)     | (35.7)     | (33.7)     |
| Earnings before income taxes         | \$ 174.2   | \$ 112.8   | \$ 201.8   |
| <b>IDENTIFIABLE ASSETS</b>           |            |            |            |
| Tools                                | \$ 1,268.2 | \$ 1,287.5 | \$ 1,324.6 |
| Hardware                             | 178.3      | 174.9      | 186.4      |
| Specialty Hardware                   | 105.2      | 99.5       | 92.5       |
| General corporate assets             | 1,551.7    | 1,561.9    | 1,603.5    |
| Total                                | \$ 1,659.6 | \$ 1,670.0 | \$ 1,701.1 |
| <b>CAPITAL EXPENDITURES</b>          |            |            |            |
| Tools                                | \$ 81.0    | \$ 65.4    | \$ 61.5    |
| Hardware                             | 11.8       | 9.9        | 7.7        |
| Specialty Hardware                   | 8.3        | 7.2        | 6.0        |
| <b>DEPRECIATION AND AMORTIZATION</b> |            |            |            |
| Tools                                | 58.7       | 63.6       | 65.6       |
| Hardware                             | 9.6        | 10.9       | 10.9       |
| Specialty Hardware                   | 4.1        | 4.1        | 3.8        |

GEOGRAPHIC AREAS

| (MILLIONS OF DOLLARS)   | 1996       | 1995       | 1994       |
|-------------------------|------------|------------|------------|
| <b>NET SALES</b>        |            |            |            |
| United States           | \$ 1,911.5 | \$ 1,884.9 | \$ 1,808.6 |
| Europe                  | 421.8      | 413.4      | 357.6      |
| Other Areas             | 337.5      | 326.0      | 344.7      |
| Consolidated            | \$ 2,670.8 | \$ 2,624.3 | \$ 2,510.9 |
| <b>OPERATING PROFIT</b> |            |            |            |

|                     |            |            |            |
|---------------------|------------|------------|------------|
| United States       | \$ 212.5   | \$ 146.9   | \$ 215.4   |
| Europe              | 24.8       | 26.8       | 31.9       |
| Other Areas         | 13.9       | 12.4       | 27.0       |
| -----               |            |            |            |
| Total               | \$ 251.2   | \$ 186.1   | \$ 274.3   |
| -----               |            |            |            |
| IDENTIFIABLE ASSETS |            |            |            |
| United States       | \$ 996.0   | \$ 1,028.5 | \$ 1,050.4 |
| Europe              | 321.6      | 314.1      | 319.4      |
| Other Areas         | 277.2      | 255.9      | 274.4      |
| Eliminations        | (43.1)     | (36.6)     | (40.7)     |
| -----               |            |            |            |
| Total               | \$ 1,551.7 | \$ 1,561.9 | \$ 1,603.5 |
| -----               |            |            |            |

Note: In 1996, restructuring charges, asset write-offs and related transition costs of \$68.7 million, \$4.4 million, and \$2.6 million were included in the Tools, Hardware, and Specialty Hardware segments, respectively, and \$5.0 million was included in net corporate expenses. Restructuring charges, asset write-offs and related transition costs of \$43.4 million, \$19.6 million and \$12.7 million were included in the United States, Europe and Other Areas, respectively.

In 1995, restructuring charges, asset write-offs and related transition costs of \$70.0 million, \$14.3 million, and \$2.4 million were included in the Tools, Hardware, and Specialty Hardware segments, respectively, and \$8.3 million was included in net corporate expenses. Restructuring charges, asset write-offs and related transition costs of \$62.0 million, \$16.4 million and \$8.3 million were included in the United States, Europe and Other Areas, respectively.

The Operating Results: Comparative Analysis on page 23 of this report provides further analysis of the restructuring charges, asset write-offs and related transition costs.

SUMMARY OF SELECTED FINANCIAL INFORMATION

| (MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS) | 1996 (A) | 1995 (B) | 1994     | 1993     | 1992     |
|---|----------|----------|----------|----------|----------|
| <b>CONTINUING OPERATIONS (C)</b>                |          |          |          |          |          |
| Net sales                                       | \$ 2,671 | \$ 2,624 | \$ 2,511 | \$ 2,273 | \$ 2,196 |
| Earnings  | 97       | 59       | 125      | 93       | 98       |
| Earnings per share (D)                          | \$ 1.09  | \$ .67   | \$ 1.40  | \$ 1.03  | \$ 1.07  |
| <b>Percent of Net Sales:</b>                    |          |          |          |          |          |
| Cost of sales                                   | 67.2%    | 68.2%    | 67.1%    | 68.3%    | 66.8%    |
| Selling, general and administrative             | 22.8%    | 22.5%    | 22.3%    | 22.5%    | 24.0%    |
| Interest-net                                    | .8%      | 1.2%     | 1.2%     | 1.1%     | 1.2%     |
| Other-net                                       | .8%      | .5%      | 1.4%     | 1.6%     | .8%      |
| Restructuring and asset write-offs              | 1.8%     | 3.3%     | -        | -        | -        |
| Earnings before income taxes                    | 6.5%     | 4.3%     | 8.0%     | 6.5%     | 7.2%     |
| Earnings  | 3.6%     | 2.3%     | 5.0%     | 4.1%     | 4.5%     |
| <b>OTHER KEY INFORMATION</b>                    |          |          |          |          |          |
| Total assets                                    | \$ 1,660 | \$ 1,670 | \$ 1,701 | \$ 1,577 | \$ 1,608 |
| Long-term debt                                  | 343      | 391      | 387      | 377      | 438      |
| Shareholders' equity                            | \$ 780   | \$ 735   | \$ 744   | \$ 681   | \$ 696   |
| <b>Ratios:</b>                                  |          |          |          |          |          |
| Current ratio                                   | 2.4      | 2.4      | 2.1      | 2.1      | 2.4      |
| Total debt to total capital                     | 31.7%    | 39.6%    | 39.2%    | 38.7%    | 40.1%    |
| Income tax rate                                 | 44.4%    | 47.6%    | 37.9%    | 37.4%    | 37.9%    |
| Return on average equity (C, D)                 | 12.8%    | 8.0%     | 17.6%    | 13.5%    | 14.1%    |
| <b>Common Stock Data:</b>                       |          |          |          |          |          |
| Dividends per share                             | \$ .73   | \$ .71   | \$ .69   | \$ .67   | \$ .64   |
| Equity per share at year-end                    | \$ 8.79  | \$ 8.28  | \$ 8.37  | \$ 7.62  | \$ 7.66  |
| Market price -high                              | 32 13/16 | 26 11/16 | 22 7/16  | 23 15/16 | 24 1/16  |
| -low  | 23 5/8   | 17 13/16 | 17 7/16  | 18 15/16 | 16 1/4   |
| Average shares outstanding (in thousands)       | 88,824   | 88,719   | 89,550   | 89,871   | 91,405   |
| <b>Other Information:</b>                       |          |          |          |          |          |
| Earnings from continuing operations             | \$ 97    | \$ 59    | \$ 125   | \$ 93    | \$ 98    |
| Earnings from discontinued operations           | -        | -        | -        | -        | -        |
| Cumulative effect of accounting change          | -        | -        | -        | (9)      | -        |
| Net earnings                                    | \$ 97    | \$ 59    | \$ 125   | \$ 84    | \$ 98    |
| Net earnings per share (D)                      | \$ 1.09  | \$ .67   | \$ 1.40  | \$ .94   | \$ 1.07  |
| Average number of employees                     | 18,903   | 19,784   | 19,445   | 18,988   | 18,650   |
| Shareholders of record at end of year           | 17,823   | 16,919   | 17,599   | 20,018   | 20,661   |

(A) Includes charges for restructuring and asset write-offs of \$47.8 million, or \$.43 per share, related transition costs of \$32.9 million, or \$.23 per share, and a non-cash charge of \$7.6 million, or \$.08 per share, for elements of the company's employment contract with its new chief executive officer.

(B) Includes charges for restructuring and asset write-offs of \$85.5 million, or \$.72 per share, and related transition costs of \$9.5 million, or \$.06 per share.

(C) Excluding the cumulative after-tax effect of accounting changes for postemployment benefits of \$8.5 million, or \$.09 per share, in 1993; postretirement benefits of \$12.5 million, or \$.14 per share, in 1991; and income taxes of \$13.1 million, or \$.15 per share, in 1988.

(D) Earnings per share and return on average equity excluding restructuring charges, asset write-offs, related transition costs and the 1996 chief executive officer recruitment charge would have been \$1.83 per share and 18.9% in 1996 and \$1.45 per share and 16.6% in 1995.

On April 17, 1996, the Board of Directors declared a two-for-one common stock split. All shares outstanding and per share amounts have been restated to reflect the stock split.

| 1991     | 1990     | 1989     | 1988     | 1987     | 1986     |
|----------|----------|----------|----------|----------|----------|
| \$ 1,942 | \$ 1,956 | \$ 1,951 | \$ 1,888 | \$ 1,744 | \$ 1,355 |
| 97       | 106      | 117      | 102      | 96       | 78       |
| \$ 1.12  | \$ 1.26  | \$ 1.35  | \$ 1.18  | \$ 1.11  | \$ .92   |
| 66.0%    | 65.3%    | 64.8%    | 65.6%    | 64.7%    | 64.9%    |
| 23.8%    | 23.7%    | 23.0%    | 23.0%    | 23.4%    | 23.9%    |
| 1.3%     | 1.3%     | 1.3%     | 1.7%     | 1.7%     | 1.4%     |
| .8%      | .9%      | 1.0%     | .6%      | .7%      | .1%      |
| -        | -        | -        | -        | -        | -        |
| 8.1%     | 8.8%     | 9.9%     | 9.1%     | 9.5%     | 9.7%     |
| 5.0%     | 5.4%     | 6.0%     | 5.4%     | 5.5%     | 5.8%     |
| \$ 1,548 | \$ 1,494 | \$ 1,491 | \$ 1,405 | \$ 1,388 | \$ 1,208 |
| 397      | 398      | 416      | 339      | 354      | 363      |
| \$ 689   | \$ 679   | \$ 659   | \$ 684   | \$ 626   | \$ 555   |
| 2.4      | 2.6      | 2.6      | 2.6      | 2.4      | 2.9      |
| 37.6%    | 38.7%    | 39.6%    | 35.0%    | 40.9%    | 43.4%    |
| 38.0%    | 38.4%    | 39.6%    | 40.8%    | 41.7%    | 40.7%    |
| 14.1%    | 15.8%    | 17.3%    | 15.5%    | 14.7%    | 14.9%    |
| \$ .61   | \$ .57   | \$ .51   | \$ .46   | \$ .41   | \$ .36   |
| \$ 7.61  | \$ 8.25  | \$ 7.66  | \$ 7.99  | \$ 7.30  | \$ 6.52  |
| 22       | 19 7/8   | 19 5/8   | 15 5/8   | 18 5/16  | 15 7/16  |
| 13       | 13 5/16  | 13 3/4   | 12 3/16  | 10 5/8   | 10 1/4   |
| 86,532   | 84,384   | 86,756   | 86,217   | 86,714   | 84,558   |
| \$ 97    | \$ 106   | \$ 117   | \$ 102   | \$ 96    | \$ 78    |
| -        | -        | -        | -        | (10)     | 1        |
| (12)     | -        | -        | (13)     | -        | -        |
| \$ 85    | \$ 106   | \$ 117   | \$ 89    | \$ 86    | \$ 79    |
| \$ .98   | \$ 1.26  | \$ 1.35  | \$ 1.03  | \$ 1.00  | \$ .93   |
| 17,420   | 17,784   | 18,464   | 18,988   | 19,142   | 16,128   |
| 21,297   | 22,045   | 22,376   | 23,031   | 23,051   | 21,752   |

RESULTS OF OPERATIONS

OVERVIEW

In 1996 the company reported sales of \$2.7 billion and achieved a significant increase in earnings. Net earnings of \$97 million, or \$1.09 per share, were 64% higher than prior year net earnings of \$59 million, or \$.67 per share. The major focus during the year was the achievement of the cost reduction objectives of the company's restructuring program. Five underperforming businesses were divested. Several plants and operations within plants were closed or moved in connection with a worldwide manufacturing rationalization plan. Certain distribution and sales activities were realigned. All of these actions resulted in a net restructuring charge of \$48 million, or \$.43 per share, in 1996 compared with \$86 million, or \$.72 per share, in 1995. Certain costs and expenses associated with these restructuring initiatives were also included in gross profit and operating expenses. These transition costs totaled \$33 million in 1996 and \$9 million in 1995 and include duplicative facility costs, the expenses associated with moving production to new facilities, and strategic consulting.

In order to compare the company's profitability year to year it is helpful to exclude unusual or infrequently occurring charges which would otherwise obscure the underlying operating performance. Excluding restructuring charges along with the related transitional costs and a non-cash charge incurred in 1996 for the recruitment of the company's new CEO, normalized "core" earnings would have been \$1.83 per share compared with \$1.45 per share in 1995.

The company's 1996 results reflect profitability improvements attributable to restructuring initiatives that began last year. All of these initiatives contributed to improved margins and reduced operating expenses with the single most significant cost savings generated by the cross-divisional procurement teams.

CONSOLIDATED

Net sales for 1996 were \$2.7 billion, an increase of 2% over sales of \$2.6 billion in 1995. As reflected in the chart below, ongoing businesses experienced unit volume growth of 3% with particular strength in the Fastening Systems and Door businesses. Business and product line divestitures, net of the effects of acquisitions, decreased sales in 1996 by \$38 million. Unit volume gains were realized in all geographic areas. Net sales in 1995 reflected a 4% increase over 1994, primarily attributable to unit volume gains of 3%.

Gross profit margins were 32.8% in 1996 compared with 31.8% in 1995 and 32.9% in 1994. The improvement in margins from the prior year primarily reflects cost savings generated by procurement initiatives. Margins were also improved due to manufacturing efficiencies on higher production volume and the absence of integration costs associated with the closure of a Mechanics Tools facility in 1995, which contributed to the margin decline between 1994 and 1995. Measured on a core basis, gross profit margins were 33.4% in 1996 compared with 32.0% in 1995 and 32.9% in 1994.

Operating expenses were 22.8% of sales in 1996 compared with 22.5% in 1995 and 22.3% in 1994. The increase in 1996 and 1995 as a percent of sales results primarily from the transition costs associated with the restructuring initiatives. On a core basis, the ratios would have been 22.1% in 1996, 22.4% in 1995 and 22.3% in 1994. While there is some strategic consulting included in these transition costs for both years, the 1996 costs

NET SALES ANALYSIS

|                          | 1996 NET SALES CHANGES |       |             |              |          | 1995 NET SALES CHANGES |       |             |              |          | 1994      |
|--------------------------|------------------------|-------|-------------|--------------|----------|------------------------|-------|-------------|--------------|----------|-----------|
|                          | 1996                   | PRICE | UNIT VOLUME | AQUIS/DIVEST | CURRENCY | 1995                   | PRICE | UNIT VOLUME | AQUIS/DIVEST | CURRENCY |           |
| <b>INDUSTRY SEGMENTS</b> |                        |       |             |              |          |                        |       |             |              |          |           |
| Tools                    |                        |       |             |              |          |                        |       |             |              |          |           |
| Consumer                 | \$ 734.3               | -     | 1%          | (1)%         | (1)%     | \$ 738.9               | 3%    | 2%          | (2)%         | -        | \$ 716.0  |
| Industrial               | 555.5                  | 3%    | (1)%        | (1)%         | -        | 552.3                  | 2%    | 3%          | -            | -        | 524.4     |
| Engineered               | 686.4                  | -     | 5%          | (4)%         | -        | 678.3                  | 1%    | 4%          | -            | -        | 643.5     |
| -----                    |                        |       |             |              |          |                        |       |             |              |          |           |
| Total Tools              | 1,976.2                | 1%    | 2%          | (2)%         | (1)%     | 1,969.5                | 2%    | 3%          | (1)%         | -        | 1,883.9   |
| Hardware                 | 340.4                  | 1%    | 4%          | -            | -        | 324.2                  | 2%    | 1%          | -            | 1%       | 311.1     |
| Specialty Hardware       | 354.2                  | (2)%  | 8%          | 1%           | -        | 330.6                  | -     | 4%          | 1%           | -        | 315.9     |
| -----                    |                        |       |             |              |          |                        |       |             |              |          |           |
| Consolidated             | \$2,670.8              | -     | 3%          | (1)%         | -        | \$2,624.3              | 1%    | 3%          | (1)%         | 1%       | \$2,510.9 |
| <b>GEOGRAPHIC AREAS</b>  |                        |       |             |              |          |                        |       |             |              |          |           |
| United States            | \$1,911.5              | -     | 3%          | (2)%         | -        | \$1,884.9              | 1%    | 4%          | (1)%         | -        | \$1,808.6 |
| Europe                   | 421.8                  | 1%    | 2%          | 1%           | (2)%     | 413.4                  | 2%    | 5%          | 1%           | 8%       | 357.6     |
| Other Areas              | 337.5                  | 1%    | 3%          | -            | -        | 326.0                  | 4%    | (3)%        | (1)%         | (5)%     | 344.7     |
| -----                    |                        |       |             |              |          |                        |       |             |              |          |           |
| Consolidated             | \$2,670.8              | -     | 3%          | (1)%         | -        | \$2,624.3              | 1%    | 3%          | (1)%         | 1%       | \$2,510.9 |



primarily relate to the duplicative facility costs of consolidating North American distribution and order management for the consumer market.

Interest-net expense of \$23 million in 1996 was substantially lower than the \$30 million reported in 1995 and \$29 million in 1994. The company reduced its borrowing costs by using cash from operations to repay debt.

Other-net expense in 1996 was \$22 million compared with \$14 million in 1995. Included in 1996 was a non-cash charge for \$7.6 million associated with the recruitment of the company's new CEO. This charge primarily reflects the market value of stock awarded under the terms of a three-year employment contract. In 1994, other-net expense was \$36 million and included higher environmental charges as well as asset write-downs and other exit costs associated with divestitures and plant closings, primarily the Mechanics Tools facility closure.

The effective tax rate was 44.4% in 1996 compared with 47.6% in 1995 and 37.9% in 1994. The rate was influenced by non-deductible restructuring charges in both 1996 and 1995 and by the non-deductibility of the 1996 charge for the recruitment of the company's new CEO. Excluding those items, the effective tax rate would have been 38% in 1996 and 1995.

#### BUSINESS SEGMENT RESULTS

The consolidated 1996 segment operating profit margin, exclusive of restructuring charges and restructuring-related transition costs, improved to 12.2% of sales from 10.4% in the prior year. The following table provides clarification of reported results for 1996 and 1995, reconciling them with normalized "core" results. Core results exclude restructuring charges, restructuring-related transition costs and the non-cash charge associated with the recruitment of the company's new CEO. The Tools, Hardware and Specialty Hardware segment and the geographic area comments that follow are based on these normalized "core" results.

Overall, net sales in the Tools segment in 1996 remained flat following a 4% increase in 1995. Unit volume growth was 2% with particular strength experienced in the markets for fastening tools and fasteners. These gains were offset by the lost sales from divested businesses and product lines. Competitive pricing continues to influence most of the consumer channels. Core operating profit margins improved to 13.4% in 1996 from 11.4% in 1995 and 11.5% in 1994. Cost savings were realized from restructuring initiatives, primarily cross-divisional procurement, along with manufacturing efficiencies in some businesses that experienced higher production volume. Margins in 1995 were depressed due to the integration costs associated with the closure and relocation of a Mechanics Tools facility.

Net sales in the Hardware segment increased 5% in 1996, primarily from volume increases, following a 4% increase in the prior year. Strong markets for consumer hardware, especially in the U.S., contributed to the unit volume gains. Core operating margins increased to 13.7% in 1996 from 8.5% in 1995 and 10.7% in 1994. This improvement results from increased volume, production levels that favorably absorbed factory overhead costs and positive effects of cross-divisional purchasing and other restructuring initiatives. Margins in 1995 were depressed due to operating inefficiencies in the Home Decor facility located in France. These operating issues were successfully addressed in 1996.

Net sales in the Specialty Hardware segment increased 7% in 1996 following a 5% increase in the prior year. The primary contributor to the volume growth was gains realized in the U.S. markets for entry doors and

#### OPERATING RESULTS: COMPARATIVE ANALYSIS

|                              | Reported | Restructuring & Other Charges* | 1996 Related Transition Costs | Core    | Core Profit Margin | Reported | Restructuring Charges | 1995 Related Transition Costs | Core    | Core Profit Margin |
|------------------------------|----------|--------------------------------|-------------------------------|---------|--------------------|----------|-----------------------|-------------------------------|---------|--------------------|
| <b>Industry Segments</b>     |          |                                |                               |         |                    |          |                       |                               |         |                    |
| Tools                        | \$196.6  | \$44.6                         | \$24.1                        | \$265.3 | 13.4%              | \$154.9  | \$64.2                | \$5.8                         | \$224.9 | 11.4%              |
| Hardware                     | 42.4     | -                              | 4.4                           | 46.8    | 13.7%              | 13.4     | 13.6                  | 0.7                           | 27.7    | 8.5%               |
| Specialty Hardware           | 12.2     | 0.3                            | 2.3                           | 14.8    | 4.2%               | 17.8     | 2.0                   | 0.4                           | 20.2    | 6.1%               |
| Total                        | 251.2    | 44.9                           | 30.8                          | 326.9   | 12.2%              | 186.1    | 79.8                  | 6.9                           | 272.8   | 10.4%              |
| Net corporate expenses       | (48.9)   | 10.5                           | 2.1                           | (36.3)  |                    | (37.6)   | 5.7                   | 2.6                           | (29.3)  |                    |
| Interest expense             | (28.1)   | -                              | -                             | (28.1)  |                    | (35.7)   | -                     | -                             | (35.7)  |                    |
| Earnings before income taxes | \$174.2  | \$55.4                         | \$32.9                        | \$262.5 |                    | \$112.8  | \$85.5                | \$9.5                         | \$207.8 |                    |
| <b>Geographic Areas</b>      |          |                                |                               |         |                    |          |                       |                               |         |                    |
| United States                | \$212.5  | \$17.2                         | \$26.2                        | \$255.9 | 13.4%              | \$146.9  | \$55.2                | \$6.8                         | \$208.9 | 11.1%              |
| Europe                       | 24.8     | 17.1                           | 2.5                           | 44.4    | 10.5%              | 26.8     | 16.3                  | 0.1                           | 43.2    | 10.4%              |
| Other Areas                  | 13.9     | 10.6                           | 2.1                           | 26.6    | 7.9%               | 12.4     | 8.3                   | -                             | 20.7    | 6.3%               |
| Consolidated                 | \$251.2  | \$44.9                         | \$30.8                        | \$326.9 | 12.2%              | \$186.1  | \$79.8                | \$6.9                         | \$272.8 | 10.4%              |

\* Includes CEO recruitment charge.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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garage door openers. Competitive pricing continues to affect this segment, but is especially severe in the U.S. commercial market for automated door products. Operating profit margins have deteriorated in this segment and reflect the company's strategic decision to defend its market share in an extremely competitive pricing environment, incurring additional costs to do so. These factors offset the profits realized from entry door products and improvements from restructuring initiatives.

## GEOGRAPHIC AREA RESULTS

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Net sales in the U.S. increased 1% from the prior year despite the lost sales of divested businesses and product lines. Unit volume from continuing operations increased 3% with the majority of the growth generated from the Fastening Systems, Door Systems and Hardware divisions. Core operating profit margins were significantly improved to 13.4% in 1996 from 11.1% in 1995 and 11.9% in 1994. Margins in 1995 were negatively affected by the integration costs associated with moving a manufacturing facility. The improvement in 1996 also reflects the contributions from restructuring initiatives.

Net sales in Europe increased 2% in 1996, following a 16% increase in 1995. Unit volume gains in the U.K. were offset by weak French and other European markets as well as the negative effects of currency translation. Core operating profit margins of 10.5% were relatively consistent with 1995 margins of 10.4% and improved over margins of 8.9% in 1994, primarily due to higher volumes.

Net sales in Other Areas increased 4% in 1996 following a 5% decrease in 1995. During 1996 the Canadian markets for the company's products improved, as did markets in the Pacific Rim. Australia and Latin America showed unit volume declines for the year. Core operating profit margins improved to 7.9% in 1996 from 6.3% in 1995 and 7.8% in 1994. Margins were depressed in 1995, the result of volume declines along with increased costs related to investments to expand the company's presence in some of these markets.

## FINANCIAL CONDITION

### LIQUIDITY; SOURCES AND USES OF CAPITAL

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The company's success in achieving its planned growth depends upon its ability to generate cash from operations and raise funds in either debt or equity markets. The company's 1996 results reflect strengthening in both those areas, as evidenced by a 46% increase in operating cash flow and a significantly lower debt to total capital ratio.

Cash flow from operations in 1996 was \$260 million, a significant increase over prior year levels. Improved profitability along with more aggressive asset and liability management were the primary contributors.

Capital expenditures, including the capitalization of internally-developed software, were \$104 million in 1996. This investment reflects increased expenditures for consolidating distribution and order management as well as additional strategic manufacturing investments to establish a more competitive cost structure. Expenditures in 1997 are expected to be closer to depreciation and amortization levels.

The company realized cash proceeds of \$36 million from the sale of five businesses.

In order to offset any dilutive impact of its employee benefit programs, the company purchased \$29 million of common stock for treasury. This amount reflects the cost for the shares purchased net of the proceeds from shares of stock issued during the year. Activity in 1996 reflects an increased level of stock option exercises by employees. The company paid dividends of \$68 million in 1996 and increased the dividend payout rate by 3%. The total dollar amount of dividends paid in 1996 was lower than in 1995 because there were five dividend payments in 1995 compared with four in 1996.

As excess cash was used to reduce outstanding debt, the company's total borrowing level decreased by \$120 million. The company's total debt to capital ratio was 31.7% compared with 39.6% in 1995. Excluding the company's guarantee of its ESOP debt, the debt to capital ratio was 26.7% in 1996 compared with 34.1% in 1995.

The company manages its debt portfolio with the objectives of minimizing interest expense and optimizing the leverage of foreign investments. In order to achieve these objectives, the company utilizes selected derivative financial instruments, primarily interest rate and interest rate/currency swaps. Information regarding the company's use of derivative financial instruments is provided in the footnotes to the financial statements. The company's overall financing strategy does not expose it to significant market or credit risk.

The company has access to financial resources and borrowing capabilities around the world. As of December 28, 1996, the company had approximately \$374 million of unused lines of credit and \$100 million of unissued debt securities registered with the Securities and Exchange Commission. 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 capital needs of its businesses, to make strategic acquisitions and to undertake other initiatives associated with the company's plans for growth.

RESTRUCTURING ACTIVITIES  
- - - - -

The company's multi-year restructuring plan resulted in a net charge of \$48 million, or \$.43 per share, in 1996. This charge reflects severance, asset write-downs and other exit costs associated with a manufacturing rationalization plan that encompasses both U.S. and international operations. In addition, the company sold five under-performing businesses in 1996 and included a \$3 million charge for the net gains and losses associated with those sales in the total restructuring charge.

On February 18, 1997, the company completed its sale of its garage related products business which will result in a pretax gain to be recog-

nized in the first quarter of 1997 of approximately \$10 million. The sale will not have a significant effect on reported sales or earnings from core operations in the future.

Restructuring charges in 1995 included \$21 million related to the write-down of impaired assets; \$44 million related to the write-down of assets from businesses or product lines to be exited; \$4 million in cash payments, primarily employee termination benefits; and \$17 million related to reserves established for closing facilities.

The company had approximately \$27 million of reserves, primarily severance related, at year-end 1996. Associated cash outlays are expected to be substantially complete in 1997.

The company is aggressively pursuing its goal of lowering its cost structure in the production and delivery of its products. While the initial target of \$400 million in cost and asset reductions will be reached in 1997, several task forces have been appointed to examine areas for additional change. The task forces have the objectives of reducing the number of manufacturing locations, realigning the organization structure, reducing working capital, increasing new product development and identifying opportunities for product and market extensions. Plans currently in place and being developed will result in additional restructuring charges and restructuring-related transition costs in 1997 and possibly beyond. While the company is unable to estimate the amount of these charges, it is anticipated that they will be significant.

#### OTHER MATTERS

At the end of 1996 the company recruited a new chief executive officer. A \$7.6 million charge was recorded in 1996 to recognize the value of share units and other immediately vested benefits provided under the terms of his employment agreement. The employment agreement also granted options, subject to shareholder approval, to purchase 1,000,000 shares of the company's common stock at an exercise price of \$27.562 per share. If approved by the shareholders, this option grant will result in a non-cash accounting charge, representing the difference between the exercise price and the fair market value as of April 23, 1997, the date of the Shareholder Annual Meeting. This charge will likely be material to the company's operating results in 1997.

#### LEGAL AND ENVIRONMENTAL

In the normal course of business the company becomes involved in various lawsuits and claims. The company has estimated the potential cost of these activities and has established appropriate reserves.

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 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.

#### ACCOUNTING CHANGE

In June 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets", which modifies the criteria for recognizing transfers of financial assets and establishes the accounting for servicing of those transferred assets. The company will adopt the provisions of this new standard effective the first quarter of 1997. The company has estimated that the adoption of this pronouncement will not have a material impact on results of operations or financial position.

#### CAUTIONARY STATEMENTS

Certain risks and uncertainties are inherent in the company's abilities to complete the competitive positioning of its cost structure through its restructuring initiatives and to achieve sustained, profitable growth.

The company's ability to implement successfully all of its restructuring initiatives, including the relocation and consolidation of multiple manufacturing operations and the success of the Perfect Customer Service Program, is dependent on such factors as the ability of its employees, with the help of outside consultants, to develop and execute comprehensive plans to provide for smooth transitions, the successful recruitment and training of new employees, the resolution of any labor issues related to closing facilities, the need to respond to significant changes in product demand during the transition and unforeseen events. In addition, the company's ability to sustain the profitability improvements that have been attributable to the restructuring initiatives is dependent on the extent of pricing pressure within the company's

markets, the continued consolidation of customers in consumer channels, increasing global competition, changes in trade, monetary and fiscal policies and laws, inflation and currency exchange fluctuations, as well as recessionary or expansive trends in the economies in which the company operates.

The company's ability to generate sustained, profitable growth is dependent on its ability to competitively position its cost structure, to gain acceptance of the company's products within new or developing markets and to continue the development of successful new products. The achievement of externally-generated growth will depend upon the ability to successfully identify, negotiate, consummate and integrate into operations acquisitions, joint ventures and/or strategic alliances.

## The Stanley Works and Subsidiaries

## CONSOLIDATED STATEMENTS OF EARNINGS

Fiscal years ended December 28, 1996, December 30, 1995, and December 31, 1994

| (MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS) | 1996       | 1995       | 1994       |
|---|------------|------------|------------|
| NET SALES                                       | \$ 2,670.8 | \$ 2,624.3 | \$ 2,510.9 |
| COSTS AND EXPENSES                              |            |            |            |
| Cost of sales                                   | 1,795.5    | 1,789.7    | 1,684.0    |
| Selling, general and administrative             | 608.5      | 591.7      | 560.4      |
| Interest-net                                    | 22.5       | 30.3       | 29.0       |
| Other-net                                       | 22.3       | 14.3       | 35.7       |
| Restructuring and asset write-offs              | 47.8       | 85.5       | -          |
|   | 2,496.6    | 2,511.5    | 2,309.1    |
| EARNINGS BEFORE INCOME TAXES                    | 174.2      | 112.8      | 201.8      |
| INCOME TAXES                                    | 77.3       | 53.7       | 76.5       |
| NET EARNINGS                                    | \$ 96.9    | \$ 59.1    | \$ 125.3   |
| NET EARNINGS PER SHARE OF COMMON STOCK          | \$ 1.09    | \$ .67     | \$ 1.40    |

See notes to consolidated financial statements.

## The Stanley Works and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

December 28, 1996 and December 30, 1995

| (MILLIONS OF DOLLARS)   | 1996              | 1995              |
|---|-------------------|-------------------|
| <b>ASSETS</b>   |                   |                   |
| <b>CURRENT ASSETS</b>   |                   |                   |
| Cash and cash equivalents   | \$ 84.0           | \$ 75.4           |
| Accounts and notes receivable   | 446.3             | 438.7             |
| Inventories   | 338.1             | 349.1             |
| Other current assets  | 42.5              | 51.9              |
| <b>TOTAL CURRENT ASSETS</b>   | <b>910.9</b>      | <b>915.1</b>      |
| PROPERTY, PLANT AND EQUIPMENT   | 570.4             | 556.5             |
| GOODWILL AND OTHER INTANGIBLES  | 98.9              | 131.8             |
| OTHER ASSETS  | 79.4              | 66.6              |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,659.6</b> | <b>\$ 1,670.0</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                   |                   |
| <b>CURRENT LIABILITIES</b>  |                   |                   |
| Short-term borrowings   | \$ 4.9            | \$ 77.2           |
| Current maturities of long-term debt  | 15.1              | 14.1              |
| Accounts payable  | 130.8             | 112.7             |
| Accrued expenses  | 230.8             | 183.7             |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>381.6</b>      | <b>387.7</b>      |
| LONG-TERM DEBT  | 342.6             | 391.1             |
| OTHER LIABILITIES   | 155.3             | 156.6             |
| <b>SHAREHOLDERS' EQUITY</b>   |                   |                   |
| 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 1996 and 1995   | 230.9             | 115.4             |
| Capital in excess of par value  | -                 | 68.4              |
| Retained earnings   | 919.0             | 937.6             |
| Foreign currency translation adjustment   | (45.5)            | (70.6)            |
| ESOP debt   | (234.8)           | (244.3)           |
|   | 869.6             | 806.5             |
| Less: cost of common stock in treasury<br>(3,623,618 shares in 1996 and 3,584,580 shares in 1995) | 89.5              | 71.9              |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>   | <b>780.1</b>      | <b>734.6</b>      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   | <b>\$ 1,659.6</b> | <b>\$ 1,670.0</b> |

See notes to consolidated financial statements.

## The Stanley Works and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal years ended December 28, 1996, December 30, 1995, and December 31, 1994

| (MILLIONS OF DOLLARS)   | 1996           | 1995           | 1994           |
|---|----------------|----------------|----------------|
| <b>OPERATING ACTIVITIES:</b>  |                |                |                |
| Net earnings  | \$ 96.9        | \$ 59.1        | \$ 125.3       |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                |                |                |
| Depreciation and amortization   | 74.7           | 81.2           | 81.8           |
| Restructuring and asset write-offs  | 47.8           | 85.5           | -              |
| Other non-cash items  | 38.5           | 32.3           | 18.3           |
| Changes in operating assets and liabilities:  |                |                |                |
| Accounts and notes receivable   | (28.9)         | (23.3)         | (46.2)         |
| Inventories   | (10.5)         | (4.5)          | (69.8)         |
| Accounts payable and accrued expenses   | 9.5            | (27.8)         | 34.9           |
| Income taxes  | 24.3           | (24.1)         | (11.9)         |
| Other   | 7.6            | (.3)           | (3.9)          |
| <b>Net cash provided by operating activities</b>                                    | <b>259.9</b>   | <b>178.1</b>   | <b>128.5</b>   |
| <b>INVESTING ACTIVITIES:</b>  |                |                |                |
| Capital expenditures  | (78.7)         | (66.5)         | (66.4)         |
| Capitalized software  | (25.0)         | (20.2)         | (5.7)          |
| Proceeds from sales of businesses   | 36.4           | -              | 4.8            |
| Other   | 5.5            | 1.4            | (2.9)          |
| <b>Net cash used by investing activities</b>  | <b>(61.8)</b>  | <b>(85.3)</b>  | <b>(70.2)</b>  |
| <b>FINANCING ACTIVITIES:</b>  |                |                |                |
| Payments on long-term debt  | (26.0)         | (83.5)         | (2.9)          |
| Proceeds from long-term borrowings  | 2.0            | 86.0           | -              |
| Net short-term financing  | (72.3)         | (5.1)          | 40.9           |
| Proceeds from issuance of common stock  | 36.5           | 5.7            | 4.2            |
| Purchase of common stock for treasury   | (65.7)         | (13.2)         | (16.3)         |
| Cash dividends on common stock  | (67.6)         | (75.2)         | (61.5)         |
| <b>Net cash used by financing activities</b>  | <b>(193.1)</b> | <b>(85.3)</b>  | <b>(35.6)</b>  |
| Effect of exchange rate changes on cash   | 3.6            | (1.4)          | 2.9            |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>8.6</b>     | <b>6.1</b>     | <b>25.6</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                 | <b>75.4</b>    | <b>69.3</b>    | <b>43.7</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                       | <b>\$ 84.0</b> | <b>\$ 75.4</b> | <b>\$ 69.3</b> |

See notes to consolidated financial statements.

The Stanley Works and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Fiscal years ended December 28, 1996, December 30, 1995, and December 31, 1994

(MILLIONS OF DOLLARS)

|  | Common<br>Stock | Capital In Excess<br>of Par Value | Retained<br>Earnings | Foreign<br>Currency<br>Translation<br>Adjustment | ESOP debt  | Treasury<br>Stock | Shareholders'<br>Equity |
|--|-----------------|-----------------------------------|----------------------|--|------------|-------------------|-------------------------|
| BALANCE JANUARY 1, 1994                  | \$ 115.4        | \$ 73.1                           | \$ 871.1             | \$ (56.7)  | \$ (261.5) | \$ (60.5)         | \$ 680.9                |
| Net earnings                             |                 |                                   | 125.3                |  |            |                   | 125.3                   |
| Currency translation adjustment          |                 |                                   |                      | .4   |            |                   | .4                      |
| Cash dividends declared--\$.69 per share |                 |                                   | (61.9)               |  |            |                   | (61.9)                  |
| Issuance of common stock                 |                 | (3.0)                             |                      |  |            | 13.3              | 10.3                    |
| Purchase of common stock                 |                 |                                   |                      |  |            | (21.9)            | (21.9)                  |
| ESOP debt                                |                 |                                   |                      |  | 7.8        |                   | 7.8                     |
| ESOP tax benefit                         |                 |                                   | 3.3                  |  |            |                   | 3.3                     |
| BALANCE DECEMBER 31, 1994                | 115.4           | 70.1                              | 937.8                | (56.3)   | (253.7)    | (69.1)            | 744.2                   |
| Net earnings                             |                 |                                   | 59.1                 |  |            |                   | 59.1                    |
| Currency translation adjustment          |                 |                                   |                      | (14.3)   |            |                   | (14.3)                  |
| Cash dividends declared--\$.71 per share |                 |                                   | (62.6)               |  |            |                   | (62.6)                  |
| Issuance of common stock                 |                 | (1.7)                             |                      |  |            | 13.9              | 12.2                    |
| Purchase of common stock                 |                 |                                   |                      |  |            | (16.7)            | (16.7)                  |
| ESOP debt                                |                 |                                   |                      |  | 9.4        |                   | 9.4                     |
| ESOP tax benefit                         |                 |                                   | 3.3                  |  |            |                   | 3.3                     |
| BALANCE DECEMBER 30, 1995                | 115.4           | 68.4                              | 937.6                | (70.6)   | (244.3)    | (71.9)            | 734.6                   |
| Two-for-one stock split                  | 115.5           | (66.9)                            | (48.6)               |  |            |                   | -                       |
| Net earnings                             |                 |                                   | 96.9                 |  |            |                   | 96.9                    |
| Currency translation adjustment          |                 |                                   |                      | 25.1   |            |                   | 25.1                    |
| Cash dividends declared--\$.73 per share |                 |                                   | (65.2)               |  |            |                   | (65.2)                  |
| Issuance of common stock                 |                 | (6.2)                             | (5.1)                |  |            | 53.4              | 42.1                    |
| Purchase of common stock                 |                 |                                   |                      |  |            | (71.0)            | (71.0)                  |
| Tax benefit related to stock options     |                 | 4.7                               | .3                   |  |            |                   | 5.0                     |
| ESOP debt                                |                 |                                   |                      |  | 9.5        |                   | 9.5                     |
| ESOP tax benefit                         |                 |                                   | 3.1                  |  |            |                   | 3.1                     |
| BALANCE DECEMBER 28, 1996                | \$ 230.9        | \$ -                              | \$ 919.0             | \$ (45.5)  | \$ (234.8) | \$ (89.5)         | \$ 780.1                |

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, after the elimination of intercompany accounts and transactions. The company's fiscal year ends on the Saturday nearest to December 31. The preparation of financial statements in conformity with generally accepted accounting principles 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 most foreign operations, 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 shareholders' equity. Translation adjustments for operations in highly inflationary economies and exchange gains and losses on transactions are included in earnings. These transactional gains and losses, together with the translation adjustments related to foreign operations in highly inflationary economies, amounted to net losses for 1996, 1995, and 1994 of \$1.9 million, \$5.7 million and \$5.5 million, respectively.

#### CASH EQUIVALENTS

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

#### INVENTORIES

U.S. inventories are valued at the lower of last-in, first-out (LIFO) cost or market. Other inventories are valued generally at the lower of first-in, first-out (FIFO) cost or market.

#### LONG-LIVED ASSETS

Property, plant and equipment are stated on the basis of historical cost less accumulated depreciation. Depreciation is provided using a combination of accelerated and straight-line methods over the estimated useful lives of the assets.

Goodwill is amortized on a straight-line basis over periods not exceeding forty years. The company periodically evaluates the existence of goodwill impairment on the basis of whether amounts recorded are recoverable from projected undiscounted cash flows of related businesses. Impairment losses are valued by comparing the carrying value of the goodwill to its fair value, generally determined by the discounted cash flow method.

In March 1995, the Financial Accounting Standards Board issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", which requires impairment losses to be recorded on long-lived assets used in operations 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 company adopted and applied the provisions of this new standard in 1995 to value the impairment of assets affected by restructuring, plant closings and exit plans and of assets impaired by changes in operating plans initiated in the latter half of the year. Asset impairment losses were charged to operations in 1996 and 1995 and were included in Restructuring and asset write-offs on the income statement.

#### FINANCIAL INSTRUMENTS

To manage interest rate exposure, the company enters into interest rate swap agreements. The net interest paid or received on the 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 originally covered by the terminated swap. 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 enters into forward exchange contracts to hedge firm commitments and intercompany loans and enters into purchased foreign currency options to hedge anticipated transactions. Gains and losses on forward exchange contracts are deferred and recognized as part of the underlying transactions. Purchased currency option premiums are generally recognized as cost of sales over the life of the contract. Gains and losses resulting from purchased currency options are deferred and recognized in cost of sales in the same

period as the hedged transactions. Changes in the fair value of certain options, representing a basket of foreign currencies purchased to hedge anticipated intercompany cross-currency cash flows, are included in Other-net expense. The company does not use financial instruments for trading or speculative purposes.

#### INCOME TAXES

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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. In accordance with Financial Accounting Statement No. 109, "Accounting for Income Taxes", these deferred taxes are measured by applying enacted tax rates in effect in years in which the differences are expected to reverse.

EARNINGS PER SHARE

Earnings per share are based on the weighted average number of shares of common stock outstanding during each year (88,824,000 shares, 88,719,000 shares and 89,550,000 shares in 1996, 1995 and 1994, respectively). The issuance of additional shares granted under employee stock compensation plans would not result in a material dilution of earnings per share.

STOCK-BASED COMPENSATION

Effective in fiscal year 1996, the company adopted Financial Accounting Statement No. 123, "Accounting for Stock-Based Compensation." This statement defines a fair value based method of accounting for employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans in accordance with Accounting Principle Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount the employee must pay to acquire the stock. The company has elected to continue to account for its employee stock compensation plans under APB No. 25. Pro forma disclosures of net earnings and earnings per share, as if the fair value based method of accounting had been applied, are presented in Note I.

RECLASSIFICATIONS

Certain prior years amounts have been reclassified to conform with the current year presentation.

B ACCOUNTS AND NOTES RECEIVABLE

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. At December 28, 1996 and December 30, 1995, allowances for doubtful receivables of \$22.5 million and \$18.2 million, respectively, were applied as a reduction of current accounts and notes receivable. The company believes it has no significant concentrations of credit risk as of December 28, 1996.

The company sells, with recourse, certain domestic accounts receivable under a revolving sales agreement. The proceeds from these sales were \$73 million in 1996, \$72 million in 1995 and \$59 million in 1994. At December 28, 1996 and December 30, 1995, the balance of these receivables subject to recourse was approximately \$88 million and \$81 million, respectively. Adequate provisions have been made to cover anticipated losses.

C INVENTORIES

| (MILLIONS OF DOLLARS) | 1996     | 1995     |
|-----------------------|----------|----------|
| Finished products     | \$ 223.2 | \$ 224.1 |
| Work in process       | 61.7     | 63.1     |
| Raw materials         | 50.9     | 59.4     |
| Supplies              | 2.3      | 2.5      |
|                       | \$ 338.1 | \$ 349.1 |

Inventories in the amount of \$185.2 million at December 28, 1996 and \$188.6 million at December 30, 1995 were valued at the lower of LIFO cost or market. If LIFO inventories had been valued at FIFO costs, they would have been \$120.3 million and \$127.6 million higher than reported at December 28, 1996 and December 30, 1995, respectively.

D PROPERTY, PLANT AND EQUIPMENT

| (MILLIONS OF DOLLARS)                           | 1996     | 1995     |
|---|----------|----------|
| Land  | \$ 39.2  | \$ 35.7  |
| Buildings                                       | 245.1    | 241.5    |
| Machinery and equipment                         | 872.4    | 863.5    |
| Computer software                               | 67.7     | 45.5     |
|   | 1,224.4  | 1,186.2  |
| Less: accumulated depreciation and amortization | 654.0    | 629.7    |
|   | \$ 570.4 | \$ 556.5 |

The provisions for depreciation and amortization for 1996, 1995 and 1994 were \$65.9 million, \$68.3 million and \$68.4 million, respectively.

E GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles at the end of each fiscal year, net of accumulated amortization of \$69.9 million and \$74.3 million, were as follows:

| (MILLIONS OF DOLLARS) | 1996    | 1995    |
|-----------------------|---------|---------|
| Goodwill              | \$ 78.0 | \$104.4 |
| Other                 | 20.9    | 27.4    |
|                       | \$ 98.9 | \$131.8 |

F ACCRUED EXPENSES

| (MILLIONS OF DOLLARS)     | 1996    | 1995    |
|---------------------------|---------|---------|
| Payroll and related taxes | \$ 68.2 | \$ 58.7 |
| Insurance                 | 28.7    | 28.6    |
| Restructuring             | 26.9    | 16.6    |
| Income taxes              | 21.4    | -       |
| Other                     | 85.6    | 79.8    |
|                           | \$230.8 | \$183.7 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G LONG-TERM DEBT AND FINANCING ARRANGEMENTS

| (MILLIONS OF DOLLARS)  |            | 1996    | 1995    |
|--|------------|---------|---------|
| Notes payable in 2002  | 7.4%       | \$100.0 | \$100.0 |
| Commercial Paper   | 5.5%       | 89.3    | 107.0   |
| Notes payable in 1998  | 9.0%       | 34.8    | 34.8    |
| Notes payable due semiannually to 2005                                     | 6.1%       | 38.2    | 41.3    |
| Industrial Revenue Bonds due in varying amounts to 2010                    | 5.8 - 6.8% | 21.9    | 25.1    |
| ESOP loan guarantees, payable in varying monthly installments through 2001 | 7.7%       | 57.5    | 66.8    |
| Other  |            | 16.0    | 30.2    |
|  |            | 357.7   | 405.2   |
| Less: current maturities   |            | 15.1    | 14.1    |
|  |            | \$342.6 | \$391.1 |

Commercial paper outstanding at December 28, 1996 of \$89.3 million is classified as non-current pursuant to the company's intention and ability to continue to finance this obligation on a long-term basis.

The company has on file with the Securities and Exchange Commission a shelf registration statement covering the issuance of up to \$200 million of debt securities; as of December 28, 1996, \$100 million remained unused. The company has unused short and long-term credit arrangements with several banks to borrow up to \$300 million at the lower of prime or money market rates. Of this amount, \$150 million is long-term. Commitment fees range from .05% to .07%. In addition, the company has short-term lines of credit with numerous foreign banks aggregating \$77.8 million of which \$74.3 million was available at December 28, 1996. Short-term arrangements are reviewed annually for renewal. Of the long-term and short-term lines, \$300 million is available to support the company's commercial paper program. The weighted average interest rates on short-term borrowings at December 28, 1996 and December 30, 1995 were 15.6% and 6.3%, respectively.

The company has guaranteed the long-term notes payable to banks of its employee stock ownership plan (ESOP). The guarantee is reflected in the consolidated balance sheets as long-term debt with a corresponding reduction in shareholders' equity.

To manage interest costs and foreign exchange risk, the company maintains a portfolio of interest rate swap agreements. In addition, the portfolio includes currency swaps maturing in 1999 that convert \$89.3 million of commercial paper debt into Swiss Franc debt (5.4% weighted average rate). The company also has a currency swap that converts \$38.2 million of variable rate United States dollar debt to variable rate Dutch Guilder debt (3.3% weighted average rate). See Note H for more information regarding the company's interest rate and currency swap agreements.

Aggregate annual maturities of long-term debt for the years 1998 to 2001 are \$50.7 million, \$17.0 million, \$18.0 million and \$104.7 million, respectively. Interest paid during 1996, 1995 and 1994 amounted to \$26.0 million, \$33.9 million and \$45.1 million, respectively.

Commercial paper, utilized to support working capital requirements, classified as current was \$1.1 million and \$67.9 million, as of December 28, 1996 and December 30, 1995, respectively.

H 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 (30% to 40%), and to minimize the foreign exchange risk of obligations. To meet these objectives the company enters into interest rate swap and currency swap agreements. A summary of instruments and weighted average interest rates follows. The weighted average variable pay and receive rates are based on rates in effect at the balance sheet dates. Variable rates are generally based on LIBOR or commercial paper rates with no leverage features.

| (MILLIONS OF DOLLARS)            |           | 1996      | 1995 |
|----------------------------------|-----------|-----------|------|
| Interest rate swaps              |           |           |      |
| Receive fixed-pay variable rates | \$ 50.0   | \$ 62.2   |      |
| pay rate                         | 5.5%      | 3.9%      |      |
| receive rate                     | 6.2%      | 5.5%      |      |
| maturity dates                   | 2002      | 1996      |      |
| Receive variable-pay fixed rates | \$ 23.1   | \$130.0   |      |
| pay rate                         | 4.4%      | 7.8%      |      |
| receive rate                     | 5.5%      | 5.1%      |      |
| maturity dates                   | 1999      | 1996-99   |      |
| Currency swaps                   | \$149.7   | \$301.6   |      |
| pay rate                         | 4.5%      | 6.3%      |      |
| receive rate                     | 5.8%      | 7.0%      |      |
| maturity dates                   | 1999-2005 | 1996-2005 |      |



The company uses purchased currency options 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 intercompany loans and firm commitments. The objective of these practices is to minimize the impact of foreign currency fluctuations on operating results. At December 28, 1996 and December 30, 1995, the company had forward contracts hedging intercompany loans and firm commitments totaling \$14.5 million and \$70.7 million, respectively. In 1996, the company purchased a foreign currency basket option that hedges a portion of 1997 anticipated net foreign currency cash flow exposures. At December 28, 1996 and December 30, 1995, currency basket options and purchased currency options hedging anticipated transactions totaled \$131.4 million and \$47.1 million, respectively. The forward contracts and options are primarily denominated in Canadian dollars, Australian dollars, and major European currencies and generally mature within the next one year period.

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.

A summary of the carrying values and fair values of the company's financial instruments at December 28, 1996 and December 30, 1995 is as follows:

| (Millions of Dollars)                     | 1996           |            | 1995           |            |
|---|----------------|------------|----------------|------------|
|   | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term debt, including current portion | \$350.4        | \$355.4    | \$381.3        | \$395.0    |
| Currency and interest rate swaps          | 7.3            | 8.3        | 23.9           | 33.1       |
|   | \$357.7        | \$363.7    | \$405.2        | \$428.1    |

Generally, the carrying value of the debt related financial instruments is included in the 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.

#### I CAPITAL STOCK

##### STOCK SPLIT

On April 17, 1996, the shareholders approved an increase in the number of authorized common shares from 110,000,000 to 200,000,000. On that date, the Board of Directors declared a two-for-one common stock split to be effected by the distribution of one additional share for each share outstanding. Such distribution was made on June 3, 1996 to shareholders of record as of May 13, 1996. Accordingly, the stock split has been recognized by reclassifying \$115.5 million, the par value of the additional shares resulting from the split, from capital in excess of par value and retained earnings to common stock. All shares outstanding and per share amounts have been restated to reflect the stock split.

##### COMMON STOCK SHARE ACTIVITY

The activity in common shares for each year, net of treasury stock, was as follows:

|                                 | 1996        | 1995       | 1994        |
|---------------------------------|-------------|------------|-------------|
| Outstanding, beginning of year  | 88,758,830  | 88,898,750 | 89,391,262  |
| Issued for employee stock plans | 2,465,416   | 698,592    | 647,478     |
| Purchased                       | (2,504,454) | (838,512)  | (1,139,990) |
| Outstanding, end of year        | 88,719,792  | 88,758,830 | 88,898,750  |

##### COMMON STOCK RESERVED

At December 28, 1996 and December 30, 1995, the number of shares of common stock reserved for future issuance under various employee and director stock plans was as follows:

|                                | 1996       | 1995       |
|--------------------------------|------------|------------|
| Employee Stock Purchase Plan   | 5,400,288  | 5,843,248  |
| Stock Option Plans             | 9,039,112  | 11,012,342 |
| Long-Term Stock Incentive Plan | 2,895,066  | 2,909,318  |
|                                | 17,334,466 | 19,764,908 |

PREFERRED STOCK PURCHASE RIGHTS

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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 \$.01 per right at any time prior to the 10th day following the public announcement that a person has acquired beneficial ownership of 10% or more of the outstanding shares of common stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 shareholder) 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 shareholder) 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 December 28, 1996, there were 44,359,896 outstanding rights. There are 250,000 shares of Series A Junior Participating Preferred Stock reserved for issuance in connection with the rights.

STOCK OPTIONS AND AWARDS

The company has a stock option plan for officers and key employees that provides for nonqualified and incentive stock option grants. The company also has a stock option plan that provides for option grants to outside directors of the company. Options are granted at the market price of the company's stock on the date of grant and have a maximum term of 10 years.

In December 1996, the company recruited a new Chairman and Chief Executive Officer pursuant to a three year employment agreement. Awarded, in addition to a base salary, bonus and other annual benefits, were 200,000 common stock equivalent share units, and an option grant to purchase 1,000,000 shares at \$27.562 (the market value on the date of issuance). Each share unit, which as of the date of grant had a market value of \$27.75, represents the right to receive one share of common stock. The share units will be distributed in three equal annual installments beginning in 2000. The fair market value of the share units at their grant date was recognized in Other-net. The option, which is subject to shareholder approval, has a ten year term and is exercisable after June 1997. If approved by the shareholders, this option grant will result in a charge to operations that will be recorded as of the shareholder approval date (the effective grant date). The charge will represent the difference between the \$27.562 per share exercise price and the fair market value as of April 23, 1997, the shareholder Annual Meeting date.

Information regarding the company's stock option plans is summarized below:

|                                    | 1996                                       |         | 1995      |  | 1994      |  |
|------------------------------------|--|---------|-----------|--|-----------|--|
|                                    | WEIGHTED<br>AVERAGE<br>EXERCISE<br>OPTIONS | PRICE   | Options   | Weighted<br>Average<br>Exercise<br>Price | Options   | Weighted<br>Average<br>Exercise<br>Price |
| Outstanding at beginning of year   | 4,821,194                                  | \$18.34 | 4,261,602 | \$16.84                                  | 3,655,872 | \$15.64                                  |
| Granted                            | 973,450                                    | 27.95   | 1,098,600 | 23.00                                    | 1,067,494 | 20.19                                    |
| Exercised                          | (1,973,230)                                | 16.61   | (469,814) | 15.88                                    | (351,454) | 15.06                                    |
| Forfeited                          | (36,676)                                   | 21.29   | (69,194)  | 16.33                                    | (110,310) | 15.06                                    |
| Outstanding at end of year         | 3,784,738                                  | \$21.68 | 4,821,194 | \$18.34                                  | 4,261,602 | \$16.84                                  |
| Options exercisable at end of year | 2,811,288                                  | \$19.51 | 3,722,594 | \$16.96                                  | 3,194,108 | \$15.72                                  |

Exercise prices for options outstanding as of December 28, 1996 ranged from \$15.06 to \$28.88. The weighted average remaining contractual life of these options is 8 years.

EMPLOYEE STOCK PURCHASE PLAN

The Employee Stock Purchase Plan enables substantially all employees in the United States and Canada 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 (\$23.69 per share for fiscal year 1997 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 1996, 1995, and 1994 shares totaling 442,960, 156,752 and 246,820, respectively, were issued under the plan at average prices of \$19.61, \$17.29 and \$17.15 per share, respectively.

LONG-TERM STOCK INCENTIVE PLAN

The Long-Term Stock Incentive Plan provides for the granting of awards to senior management employees for achieving company performance measures over five year cycles. The Plan is administered by the Compensation and Organization Committee of the Board of Directors consisting of non-employee directors. Awards are payable in cash, shares of common stock, or any combination thereof at the discretion of the Committee. The amounts of \$2.5 million, \$.4 million and \$.3 million were charged to expense in 1996, 1995 and 1994, respectively. Shares totaling 14,252, 47,734 and 16,534 were issued in 1996, 1995 and 1994, respectively. The Compensation and Organization Committee determined in 1994 not to make any further awards under this plan. Accordingly, there will be no further payments under this plan subsequent to the 1993-1997 and 1994-1998 award cycles.

STOCK COMPENSATION PLANS

The company accounts for stock option grants under its two stock-based compensation plans and stock purchases under the Employee Stock Purchase Plan in accordance with APB No. 25. Accordingly, no compensation cost has been recognized for stock option grants since the options have exercise prices equal to the market value of the company's common stock at the date of grant. If compensation cost for the company's stock-based compensation plans had been determined based on the fair value at the grant dates for 1996 and 1995 consistent with the method prescribed by FAS No. 123, the company's net earnings and earnings per share would have been adjusted to the pro forma amounts indicated below:

|                                      | 1996    | 1995    |
|--------------------------------------|---------|---------|
| Pro forma Net Earnings (in millions) | \$ 90.4 | \$ 55.9 |
| Pro forma Earnings Per Share         | \$ 1.02 | \$ .63  |

During the initial phase-in period, as required by FAS No. 123, the pro forma amounts were determined based on the stock option grants and employee stock purchases subsequent to January 1, 1995. Therefore, the pro forma amounts may not be indicative of the effects of compensation cost on net earnings and earnings per share in future years. Pro forma compensation cost relating to the stock options is recognized over the six month vesting period, while Employee Stock Purchase Plan compensation cost is recognized on the first day of the plan year. 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 1996 and 1995, respectively: dividend yield of 2.6% and 3.1%; expected volatility of 25% for both years; risk-free interest rates of 6.1% and 6.2%; and expected lives of 7 years. The weighted average fair value of stock options granted in 1996 and 1995 was \$8.02 and \$6.18, respectively. The fair value of the employees' purchase rights under the Employee Stock Purchase Plan was estimated using the following assumptions for 1996 and 1995, respectively: dividend yield of 2.6% and 3.1%; expected volatility of 25% for both years; risk-free interest rates of 5.6% and 5.8%; and expected lives of 1.2 years. The weighted average fair value of those purchase rights granted in 1996 and 1995 was \$6.44 and \$5.65, respectively.

J EMPLOYEE BENEFIT PLANS

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

The Savings Plan provides opportunities for tax-deferred savings, enabling eligible U.S. employees to acquire a proprietary interest in the company. Such employees may contribute from 1% to 15% of their salary to the Plan. The company contributes an amount equal to one-half of the first 7% of employee contributions. The amounts in 1996, 1995 and 1994 under this matching arrangement were \$8.4 million, \$8.3 million and \$8.3 million, respectively.

Shares of the company's common stock held by the ESOP were purchased with the proceeds of external borrowings in 1989 and borrowings from the company in 1991. The external ESOP borrowings are guaranteed by the company and are included in long-term debt. Shareholders' equity reflects both the internal and the external borrowing arrangements.

Shares are released to participant accounts based on principal and interest payments of the underlying debt. These shares along with allocated dividends and shares purchased on the open market are assigned to fund share requirements of the employee contributions, the associated employer match and the dividends earned on participant account balances.

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 income of \$8.6 million in 1996, \$2.6 million in 1995 and \$2.3 million in 1994.

Dividends on ESOP shares, which are charged to shareholders' equity as declared, were \$15.1 million, \$14.8 million and \$14.5 million in 1996, 1995 and 1994, respectively. Interest costs incurred by the ESOP on external debt for 1996, 1995 and 1994 were \$4.8 million, \$5.5 million and \$6.1 million, respectively. ESOP shares not yet allocated to participants are treated as outstanding for purposes of computing earnings per share. As of December 28, 1996, the number of ESOP shares allocated to participant accounts was 9,451,910

and the number of unallocated shares was 10,800,908.

PENSION PLANS

The retirement benefit for U.S. salaried and non-union hourly employees was changed effective January 1, 1995. Previously, benefits were provided by both a defined benefit plan and a defined contribution plan. The defined contribution plan provided for benefits as a varying percentage of payroll and the defined benefit plan provided a benefit based on salary and years of service. Upon retirement, plan participants received the greater of the two benefits. Effective January 1, 1995, the two plans were merged and restated as a defined benefit plan. The assets of both plans were combined in order to fund the plan's guaranteed benefit which is based on salary and years of service. If the plans are terminated or merged with another plan within three years following a change in control of the company, any excess plan assets are to be applied to increase the benefits of all participants.

The company also sponsors defined benefit plans for its non-U.S. employees and U.S. collective bargaining employees. Benefits generally are based on salary and years of service for non-U.S. employees, while those for collective bargaining employees are based on a stated amount for each year of service.

The company's funding policy is to contribute amounts determined annually on an actuarial basis to provide for current and future benefits in accordance with federal law and other regulations. Plan assets are invested in equity securities, bonds, real estate and money market instruments.

Additionally, the company contributes to several union-sponsored multi-employer plans which provide defined benefits.

Total pension expense includes the following components:

| (MILLIONS OF DOLLARS)         | 1996    | 1995    | 1994    |
|-------------------------------|---------|---------|---------|
| Defined benefit plans:        |         |         |         |
| Service cost                  | \$ 20.8 | \$ 16.7 | \$ 9.6  |
| Interest cost                 | 31.1    | 29.8    | 21.0    |
| Actual return on plan assets  | (51.2)  | (39.5)  | 10.6    |
| Net amortization and deferral | 17.8    | 6.5     | (35.1)  |
| Net pension expense           | 18.5    | 13.5    | 6.1     |
| Defined contribution plan     | -       | -       | 8.1     |
| Multi-employer plans          | .8      | .8      | .6      |
| Total pension expense         | \$ 19.3 | \$ 14.3 | \$ 14.8 |

The funded status of the company's defined benefit plans at the end of each fiscal year was as follows:

| (MILLIONS OF DOLLARS)                                 | 1996  |   | 1995  |   |
|---|---|---|---|---|
|   | PLANS<br>WHERE<br>ASSETS<br>EXCEED<br>ACCUMULATED<br>BENEFITS | PLANS<br>WHERE<br>ACCUMULATED<br>BENEFITS<br>EXCEED<br>ASSETS | Plans<br>Where<br>Assets<br>Exceed<br>Accumulated<br>Benefits | Plans<br>Where<br>Accumulated<br>Benefits<br>Exceed<br>Assets |
| Actuarial present value of benefit obligations:       |   |   |   |   |
| Vested  | \$351.4   | \$ 13.3   | \$320.5   | \$ 11.5   |
| Non-vested  | 6.0   | 2.7   | 3.7   | 2.0   |
| Accumulated benefit obligation                        | 357.4   | 16.0  | 324.2   | 13.5  |
| Additional amounts related to projected pay increases | 69.6  | 6.8   | 68.2  | 4.1   |
| Total projected benefit obligation (PBO)              | 427.0   | 22.8  | 392.4   | 17.6  |
| Plan assets at fair value                             | 463.1   | 7.1   | 425.2   | 6.5   |
| Assets in excess of (less than) PBO                   | 36.1  | (15.7)  | 32.8  | (11.1)  |
| Unrecognized net (gain) or loss at transition         | (6.5)   | .1  | (8.1)   | .2  |
| Unrecognized net (gain) or loss                       | (16.4)  | 4.2   | (12.5)  | .9  |
| Unrecognized prior service cost                       | 11.3  | 2.7   | 10.8  | 2.9   |
| Adjustment required to recognize minimum liability    | -   | (2.5)   | -   | (2.8)   |
| Prepaid (accrued) pension expense                     | \$ 24.5   | \$(11.2)  | \$ 23.0   | \$( 9.9)  |

Assumptions used for significant defined benefit plans were as follows:

|                                       | 1996 | 1995 | 1994  |
|---------------------------------------|------|------|-------|
| Discount rate                         | 7.0% | 7.0% | 8.25% |
| Average wage increase                 | 4.5% | 4.5% | 5.0%  |
| Long-term rate of return<br>on assets | 9.0% | 9.0% | 9.0%  |

POSTRETIREMENT BENEFITS

The company provides medical and dental benefits for certain retired employees in the United States. In addition, domestic employees who retire from active service are eligible for life insurance benefits.

The status of the company's plans at the end of each fiscal year was as follows:

| (MILLIONS OF DOLLARS)                          | 1996   | 1995   |
|--|--------|--------|
| Accumulated postretirement benefit obligation: |        |        |
| Retirees                                       | \$13.3 | \$20.3 |
| Fully eligible active plan participants        | 1.8    | 1.6    |
| Other active plan participants                 | 3.1    | 5.5    |
|  | 18.2   | 27.4   |
| Unrecognized net loss                          | (2.0)  | (10.7) |
| Accrued postretirement benefit expense         | \$16.2 | \$16.7 |

Net periodic postretirement benefit expense was \$2.0 million in 1996, \$2.9 million in 1995 and \$3.0 million in 1994.

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 9% for 1997 reducing gradually to 6% by 2010 and remaining at that level thereafter. A one percentage point increase in the assumed health care cost trend rate would have increased the accumulated benefit obligation by \$.8 million at December 28, 1996 and net periodic postretirement benefit expense for fiscal year 1996 by \$.1 million. A weighted average discount rate of 7% was used in measuring the accumulated benefit obligations in both 1996 and 1995.

K OTHER COSTS AND EXPENSES

Interest-net for 1996, 1995 and 1994 included interest income of \$5.5 million, \$5.3 million and \$4.6 million, respectively.

Other-net in 1996 includes a charge of \$7.6 million (\$.08 per share) for the issuance of 200,000 common stock equivalent share units and other immediately vested benefits under the terms of the company's employment contract with its new Chairman and Chief Executive Officer.

Advertising costs are expensed as incurred and amounted to \$52.5 million in 1996, \$54.3 million in 1995 and \$53.4 million in 1994.

L RESTRUCTURING AND ASSET WRITE-OFFS

In order to create a more competitive cost base and to fuel long-term growth, the company initiated a multi-year restructuring program in 1995. The program encompasses all Stanley businesses and focuses on the profitability potential of each product category. Businesses or product lines that do not meet the company's criteria for revenue growth and profitability have been divested. Restructuring activities are directed at creating a more competitive cost structure for the company's business units. Restructuring activities are also being focused on enhancing the company's relationships with its customers in order to create a strategic competitive advantage. This initiative involves the consolidation of distribution and order management for North American key customers.

In 1996, the company recorded restructuring charges of \$35.4 million for the write-down of assets, severance and other costs associated with the next series of initiatives identified under the multi-year restructuring program. Such costs were primarily related to transfers of production among existing manufacturing facilities, plant closures and resulting workforce reductions. These actions are expected to result in a reduction of 695 employees for which \$12.9 million of severance was recorded. The company also divested five businesses during 1996 and recognized associated gains and losses on their sales. A net loss of \$3.0 million resulting from the divestitures was included in restructuring charges.

In 1995, restructuring charges of \$64.8 million included the write-down of assets, severance and other costs totaling \$53.4 million for exiting three product categories, closing six manufacturing plants, three distribution centers and two support facilities. These actions resulted in a workforce reduction of 550 employees. Restructuring charges also included \$5.3 million for severance related to a workforce reduction of 350 employees and \$6.1 million for a comprehensive SKU reduction program.

Charges were also recognized for losses on assets that were identified as being impaired in conjunction with the company's restructuring initiatives and strategy changes. The amounts of \$9.4 million and \$20.7 million were charged to Restructuring and asset write-offs in 1996 and 1995, respectively.

Transition costs related to the restructuring initiatives were also incurred and totaled \$32.9 million in 1996 and \$9.5 million in 1995 and are included in Cost of sales and Selling, general and administrative expenses. These costs include plant and equipment relocation, strategic consulting, duplicate facility costs related to the implementation of the company's Perfect Customer Service Program and start-up inefficiencies.

In 1996, the company made severance payments of \$8.3 million to employees separated under the restructuring plan and \$9.6 million in payments for other exit costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

M OPERATIONS BY INDUSTRY SEGMENT AND GEOGRAPHIC AREA

Industry Segment and Geographic Area information included on page 19 of this report is an integral part of the financial statements.

N INCOME TAXES

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

| (MILLIONS OF DOLLARS)                        | 1996           | 1995            | 1994            |
|--|----------------|-----------------|-----------------|
| <b>Deferred Tax Liabilities:</b>             |                |                 |                 |
| Depreciation                                 | \$ 78.6        | \$ 75.4         | \$ 74.1         |
| Other  | 10.1           | 12.9            | 6.0             |
| <b>Total Deferred Tax Liabilities</b>        | <b>88.7</b>    | <b>88.3</b>     | <b>80.1</b>     |
| <b>Deferred Tax Assets:</b>                  |                |                 |                 |
| Employee benefit plans                       | 23.8           | 19.8            | 20.6            |
| Doubtful accounts                            | 6.7            | 5.1             | 5.8             |
| Inventories                                  | 5.4            | 5.6             | 3.8             |
| Amortization of intangibles                  | 24.4           | 15.1            | 14.5            |
| Accruals                                     | 18.6           | 18.0            | 24.4            |
| Restructuring charges                        | 15.1           | 19.2            | -               |
| Other  | 6.1            | 1.7             | 3.6             |
| <b>Total Deferred Tax Assets</b>             | <b>100.1</b>   | <b>84.5</b>     | <b>72.7</b>     |
| <b>Net Deferred Tax Assets (Liabilities)</b> | <b>\$ 11.4</b> | <b>\$ (3.8)</b> | <b>\$ (7.4)</b> |

Income tax expense consisted of the following:

| (MILLIONS OF DOLLARS) | 1996          | 1995          | 1994          |
|-----------------------|---------------|---------------|---------------|
| <b>Current:</b>       |               |               |               |
| Federal               | \$49.4        | \$26.0        | \$59.3        |
| Foreign               | 19.5          | 21.1          | 18.8          |
| State                 | 12.6          | 7.5           | 12.2          |
| <b>Total Current</b>  | <b>81.5</b>   | <b>54.6</b>   | <b>90.3</b>   |
| <b>Deferred:</b>      |               |               |               |
| Federal               | 2.0           | 1.2           | (8.4)         |
| Foreign               | (3.7)         | .3            | (1.0)         |
| State                 | (2.5)         | (2.4)         | (4.4)         |
| <b>Total Deferred</b> | <b>(4.2)</b>  | <b>(0.9)</b>  | <b>(13.8)</b> |
| <b>Total</b>          | <b>\$77.3</b> | <b>\$53.7</b> | <b>\$76.5</b> |

Income taxes paid during 1996, 1995 and 1994 were \$64.4 million, \$74.1 million and \$79.8 million, respectively.

The reconciliation of the statutory federal income tax rate to the effective rate was as follows:

|   | 1996         | 1995         | 1994         |
|---|--------------|--------------|--------------|
| Statutory federal income tax rate                       | 35.0%        | 35.0%        | 35.0%        |
| State income taxes, net of federal benefits             | 3.0          | 2.6          | 2.5          |
| Difference between foreign and federal income tax rates | .3           | 1.3          | (.3)         |
| Non-deductible restructuring charges                    | 4.9          | 9.6          | -            |
| Other-net   | 1.2          | (.9)         | .7           |
| <b>Effective Tax Rate</b>                               | <b>44.4%</b> | <b>47.6%</b> | <b>37.9%</b> |

The components of earnings before income taxes consisted of the following:

| (MILLIONS OF DOLLARS)        | 1996           | 1995           | 1994           |
|------------------------------|----------------|----------------|----------------|
| United States                | \$156.6        | \$ 78.5        | \$159.4        |
| Foreign                      | 17.6           | 34.3           | 42.4           |
| <b>Total Pretax Earnings</b> | <b>\$174.2</b> | <b>\$112.8</b> | <b>\$201.8</b> |

Undistributed foreign earnings of approximately \$158 million at December 28, 1996 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.

O LEASES

The company leases certain facilities, vehicles, machinery and equipment under long-term operating leases with varying terms and expiration dates.

Future minimum lease payments under noncancelable operating leases, in millions of dollars, as of December 28, 1996 were \$27.9 in 1997, \$21.1 in 1998, \$16.6 in 1999, \$12.1 in 2000, \$7.9 in 2001 and \$23.3 thereafter. Minimum payments have not been reduced by minimum sublease rentals of \$22.2 million due in the future under noncancelable subleases. Rental expense for operating leases amounted to \$36.6 million in 1996, \$40.3 million in 1995 and \$38.1 million in 1994.

P CONTINGENCIES

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 nine 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 December 28, 1996, the company had reserves of \$29 million, primarily for remediation activities associated with company-owned properties as well as for Superfund sites.

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.

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

| (MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS) | QUARTER |         |          |          | YEAR      |
|---|---------|---------|----------|----------|-----------|
|   | First   | Second  | Third    | Fourth   |           |
| 1996  |         |         |          |          |           |
| Net Sales                                       | \$635.3 | \$677.2 | \$672.9  | \$685.4  | \$2,670.8 |
| Gross Profit                                    | 206.0   | 224.2   | 224.5    | 220.6    | 875.3     |
| Selling, General and Administrative Expenses    | 149.0   | 153.1   | 151.7    | 154.7    | 608.5     |
| Restructuring and Asset Write-offs              | -       | 3.8     | 3.1      | 40.9     | 47.8      |
| Net Earnings (Loss)                             | 29.6    | 32.6    | 37.7     | (3.0)    | 96.9      |
| Net Earnings (Loss) Per Share                   | \$ .33  | \$ .37  | \$ .42   | \$ (.03) | \$ 1.09   |
| 1995  |         |         |          |          |           |
| Net Sales                                       | \$643.3 | \$655.5 | \$655.7  | \$669.8  | \$2,624.3 |
| Gross Profit                                    | 205.7   | 211.9   | 207.7    | 209.3    | 834.6     |
| Selling, General and Administrative Expenses    | 147.3   | 148.6   | 148.0    | 147.8    | 591.7     |
| Restructuring and Asset Write-offs              | -       | -       | 41.5     | 44.0     | 85.5      |
| Net Earnings (Loss)                             | 28.7    | 31.5    | (1.7)    | .6       | 59.1      |
| Net Earnings (Loss) Per Share                   | \$ .32  | \$ .36  | \$ (.02) | \$ .01   | \$ .67    |

Note: The fourth quarter of 1996 includes a charge of \$7.6 million, or \$.08 per share, for elements of the company's employment contract with its new Chairman and Chief Executive Officer.

OFFICERS

-----

BARBARA W. BENNETT

-----

Vice President, Human Resources  
(1984)

JENNIFER O. ESTABROOK

-----

Assistant General Counsel and Assistant Secretary  
(1992)

JAMES B. GUSTAFSON

-----

Vice President, Information Technology  
(1977)

RICHARD HUCK

-----

Vice President, Finance and Chief Financial Officer  
(1970)

R. ALAN HUNTER

-----

President and Chief Operating Officer  
(1974)

THOMAS E. MAHONEY

-----

Vice President, Marketing Development  
President and General Manager,  
Stanley Customer Support Division  
(1965)

PAUL W. RUSSO

-----

Vice President, Strategy and Development  
(1995)

JOHN M. TRANI

-----

Chairman and Chief Executive Officer  
(1997)

STEPHEN S. WEDDLE

-----

Vice President, General Counsel and Secretary  
(1978)

THOMAS J. WILLIAMS

-----

Associate General Counsel and Assistant Secretary  
(1981)

THERESA F. YERKES

-----

Vice President and Controller  
(1989)

BOARD OF DIRECTORS

-----

STILLMAN B. BROWN 1, 2, 4

-----

Managing General Partner  
Harcott Associates Investments

EDGAR R. FIEDLER 3, 4

-----

Retired; former Vice President and Economic Counselor  
The Conference Board

MANNIE L. JACKSON 2, 4

-----

Chairman  
Harlem Globetrotters International, a division of MJA, Inc.

JAMES G. KAISER 2, 5

-----

Retired; former President and Chief Executive Officer  
Quanterra Incorporated, a subsidiary of Corning Incorporated  
and International Technology Inc.

EILEEN S. KRAUS 1, 2, 4

-----

Chairman, Connecticut  
Fleet National Bank

GEORGE A. LORCH 3, 5

-----

Chairman and Chief Executive Officer  
Armstrong World Industries, Inc.

WALTER J. MCNERNEY 2, 4

-----

Professor of Health Policy  
J.L. Kellogg Graduate School of Management,  
Northwestern University

GERTRUDE G. MICHELSON 1, 3, 5

-----

Retired; former Senior Advisor and Director  
R.H. Macy and Co., Inc.

JOHN S. SCOTT 1, 2, 5

-----

Retired; former Chairman and Chief Executive Officer  
Richardson-Vicks Inc.,  
a subsidiary of The Procter and Gamble Company

JOHN M. TRANI 1

-----

Chairman and Chief Executive Officer  
The Stanley Works

HUGO E. UYTERHOEVEN 3, 4

-----

Professor, Graduate School of Business Administration  
Harvard University

WALTER W. WILLIAMS 3, 5

-----

Retired; former Chairman and Chief Executive Officer  
Rubbermaid, Incorporated

KATHRYN D. WRISTON 1, 3, 4

-----

Director of various organizations

(JOINED STANLEY)

1 MEMBER OF THE EXECUTIVE COMMITTEE

2 MEMBER OF THE AUDIT COMMITTEE

3 MEMBER OF THE BOARD AFFAIRS AND PUBLIC POLICY COMMITTEE

4 MEMBER OF THE FINANCE AND PENSION COMMITTEE

5 MEMBER OF THE COMPENSATION AND ORGANIZATION COMMITTEE

INVESTOR AND SHAREHOLDER INFORMATION

COMMON STOCK

The Stanley Works common stock is listed on the New York and Pacific Stock Exchanges under the abbreviated ticker symbol "SWK."

COMMON STOCK (DOLLARS PER SHARE)

|                | PRICE    |         |          |          | DIVIDENDS |        |
|----------------|----------|---------|----------|----------|-----------|--------|
|                | 1996     |         | 1995     |          | 1996      | 1995   |
|                | HIGH     | LOW     | High     | Low      |           |        |
| First Quarter  | 28 5/8   | 24 1/16 | 20 13/16 | 17 13/16 | \$.18     | \$.175 |
| Second Quarter | 32 13/16 | 27 1/8  | 20 15/16 | 18 5/16  | .18       | .175   |
| Third Quarter  | 30 3/4   | 23 5/8  | 23 5/16  | 18 5/8   | .185      | .18    |
| Fourth Quarter | 30 1/2   | 26 3/8  | 26 11/16 | 21 1/2   | .185      | .18    |
|                |          |         |          |          | \$.73     | \$.71  |

DIVIDENDS

The Stanley Works has provided excellent long-term value for shareholders. Without ever jeopardizing our strong balance sheet and without sacrificing our ability to invest in new technologies and new growth opportunities for our company, we have maintained an impressive and truly unique dividend record over the long haul:

- [ ] Our record of annual dividend payments is unmatched by any industrial company listed on the New York Stock Exchange - 120 CONSECUTIVE YEARS.
- [ ] Our quarterly dividend record is the longest of any industrial company listed on the New York Stock Exchange - 407 CONSECUTIVE QUARTERS.
- [ ] We have increased dividends in each of the past 29 YEARS, and in that same period, an investment in Stanley stock grew at a compound annual rate of 12.9%.

INCREASED DIVIDENDS EVERY YEAR SINCE 1968

[GRAPH SHOWING DIVIDENDS PAID BY THE COMPANY EACH YEAR FROM 1976 TO 1996].

TRANSFER AGENT AND REGISTRAR

-----  
All shareholder inquiries, including transfer-related matters, should be directed to:

Boston EquiServe, Servicing Agent for  
State Street Bank and Trust Company  
P.O. Box 8200  
Boston, MA 02266-8200  
800-426-5523

CORPORATE OFFICES

-----  
The company's principal corporate offices are located at  
1000 Stanley Drive,  
New Britain, Connecticut 06053.  
Telephone 860-225-5111.

ANNUAL MEETING

-----  
The annual shareholders' meeting of The Stanley Works will be held at 9:30 a.m. on Wednesday, April 23, 1997, in New Britain, Connecticut at the Stanley Center, 1255 Corbin Avenue. A formal notice of the meeting together with a proxy statement has been mailed to shareholders with this annual report.

INDEPENDENT AUDITORS

-----  
Ernst & Young LLP, 225 Asylum Street, Hartford, Connecticut 06103

FINANCIAL & INVESTOR COMMUNICATIONS

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The Stanley Works investor relations department provides information to shareholders and the financial community. We encourage inquiries and will provide services which include:

- [ ] fulfilling requests for annual reports, proxy statements, form 10-Q, form 10-K, copies of press releases and other company information.
- [ ] meetings with securities analysts and fund managers.

Contact The Stanley Works investor relations at our corporate offices by calling Gerard J. Gould, Director, Investor Relations and Communications at (860) 827-3833.

We make quarterly news releases available on-line on the Internet on the day that results are released to the news media. The Stanley Works releases will be found at the following address on the World Wide Web: <http://www.prnewswire.com> Click on "Company News On-Call".

The company's form 10-K, annual report and other recent information are also available by accessing our Internet home page at: <http://www.StanleyWorks.com>.

Stanley shareholders are also able to call toll-free 800-499-9202 to request a copy of the most recent quarterly release.

## EXHIBIT 21

(All subsidiaries are included in the Consolidated Financial Statements of The Stanley Works)

| Corporate Name<br>-----               | Jurisdiction of<br>Incorporation<br>----- |
|---------------------------------------|---|
| The Stanley Works                     | Connecticut                               |
| The Farmington River Power Company    | Connecticut                               |
| Stanley Mechanics Tools, Inc.         | Ohio                                      |
| Stanley Storage Systems, Inc.         | Connecticut                               |
| Stanley Germany Inc.                  | Delaware                                  |
| Stanley International Sales, Inc.     | Delaware                                  |
| Stanley Inter-America, Inc.           | Delaware                                  |
| Stanley Foreign Sales Corporation     | Virgin Islands                            |
| Stanley Magic-Door, Inc.              | Delaware                                  |
| Stanley Home Automation, Inc.         | Delaware                                  |
| General Rental Co., Inc.              | Florida                                   |
| Jensen Tools, Inc.                    | Delaware                                  |
| LaBounty Manufacturing, Inc.          | Minnesota                                 |
| Stanley-Bostitch, Inc.                | Delaware                                  |
| Stanley-Bostitch Holding Corporation  | Delaware                                  |
| Hartco Company                        | Illinois                                  |
| The Stanley Works Funding Corporation | Delaware                                  |
| Stanley Mail Media, Inc.              | Delaware                                  |
| Stanley Logistics, Inc.               | Delaware                                  |
| Stanley Fastening Systems, L.P.       | Delaware                                  |

## EXHIBIT 21

| Corporate Name<br>-----<br>(The Stanley Works) | Jurisdiction of<br>Incorporation<br>----- |
|--|---|
| Stanley Canada Inc.                            | Ontario, Canada                           |
| Stanley Home Decor Canada Limited              | Ontario, Canada                           |
| Stanley Tools (N.Z.) Ltd.                      | New Zealand                               |
| Ferramentas Stanley Ltda.                      | Brazil                                    |
| Herramientas Stanley<br>S.A. de C.V.           | Mexico                                    |
| Herramientas Stanley S.A.                      | Colombia                                  |
| Stanley-Bostitch, S.A. de C.V.                 | Mexico                                    |
| Stanley Tools SpA                              | Italy                                     |
| S.I.C.F.O.-Stanley S.A.                        | France                                    |
| Stanley Europe B.V.                            | Netherlands                               |
| Stanley Atlantic, Inc.                         | Delaware                                  |
| The Stanley Works Ltd.                         | U.K.                                      |
| Mosley-Stone Ltd.                              | U.K.                                      |
| R.J. Lendrum Limited                           | U.K.                                      |
| Stanley Works<br>(Nederland) B.V.              | Netherlands                               |
| Stanley Magic-Door<br>Netherlands B.V.         | Netherlands                               |
| Placements et Rangements<br>Nirva S.a.R.L.     | France                                    |

## EXHIBIT 21

| Corporate Name<br>-----<br>(The Stanley Works) | Jurisdiction of<br>Incorporation<br>----- |
|--|---|
| Societe Civile Immobiliere WAT                 | France                                    |
| Stanley Iberica S.A.                           | Spain                                     |
| Stanley Vaerktoej ApS                          | Denmark                                   |
| Stanley Svenska A.B.                           | Sweden                                    |
| Suomen Stanley OY                              | Finland                                   |
| Bostitch G.m.b.H.                              | Germany                                   |
| Friess G.m.b.H.                                | Germany                                   |
| Stanley Bostitch S.A.                          | France                                    |
| Soc. de Fab. Bostitch S.A. (Simax)             | France                                    |
| Bostitch (Europe) AG                           | Switzerland                               |
| Bostitch AG                                    | Switzerland                               |
| S.A. Stanley Works Belgium N.V.                | Belgium                                   |
| Stanley International<br>Holdings Inc.         | Delaware                                  |
| Stanley Pacific Inc.                           | Delaware                                  |
| Stanley-Bostitch<br>Pty. Limited               | Delaware                                  |
| The Stanley Works Pty. Ltd.                    | Australia                                 |
| Stanley Works Asia Pacific Pte. Ltd.           | Singapore                                 |
| The Stanley Works<br>(Hong Kong) Ltd.          | Hong Kong                                 |

## EXHIBIT 21

-----

| Corporate Name<br>-----<br>(The Stanley Works) | Jurisdiction of<br>Incorporation<br>----- |
|--|---|
| The Stanley Works Sales<br>(Philippines), Inc. | Philippines                               |
| Stanley Tools Ltd.                             | Taiwan                                    |
| Chiro Tool Manufacturing Corporation           | Taiwan                                    |
| The Stanley Works<br>(Bermuda) Ltd.            | Bermuda                                   |
| The Stanley Works Japan K.K.                   | Japan                                     |
| Stanley Works Ltd.                             | Thailand                                  |
| Stanley Tools Poland Ltd.                      | Poland                                    |
| Tona a.s. (LTD) (83%)                          | Czech Republic                            |
| P.T. Stanley Works Indonesia                   | Indonesia                                 |
| Stanley Works Malaysia Sdn. Bhd.               | Malaysia                                  |
| Stanley Fastening Systems Poland Ltd.          | Poland                                    |
| Stanley de Chihuahua, S. de R.L. de C.V.       | Mexico                                    |

The names of certain subsidiaries have been omitted because such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

THE STANLEY WORKS AND SUBSIDIARIES  
FINANCIAL DATA SCHEDULE

This schedule contains summary financial information extracted from The Stanley Works and Subsidiaries Consolidated Balance Sheets and Statement of Earnings and is qualified in its entirety by reference to such financial statements.

1,000

| YEAR      |             |
|-----------|-------------|
|           | DEC-28-1996 |
|           | DEC-28-1996 |
|           | 84,000      |
|           | 0           |
|           | 468,800     |
|           | 22,500      |
|           | 338,100     |
|           | 910,900     |
|           | 1,224,400   |
|           | 654,000     |
|           | 1,659,600   |
| 381,600   |             |
|           | 342,600     |
| 0         |             |
|           | 0           |
|           | 230,900     |
| 1,659,600 | 549,200     |
|           | 2,670,800   |
| 2,670,800 |             |
|           | 1,795,500   |
| 1,795,500 |             |
|           | 0           |
|           | 0           |
| 22,500    |             |
| 174,200   |             |
| 96,900    | 77,300      |
|           | 0           |
|           | 0           |
|           | 0           |
|           | 96,900      |
|           | 1.09        |
|           | 0           |

On April 17, 1996, the company declared a two-for-one stock split. Prior period Financial Data Schedules have not been restated.



## Exhibit 27(i)

THE STANLEY WORKS AND SUBSIDIARIES  
RESTATED FINANCIAL DATA SCHEDULE

This schedule contains summary financial information extracted from The Stanley Works and Subsidiaries Consolidated Balance Sheets and Statements of Earnings and is qualified in its entirety by reference to such financial statements.

1,000

|           | 3-MOS<br>DEC-28-1996 | 6-MOS<br>DEC-28-1996 | 9-MOS<br>DEC-28-1996 |
|-----------|----------------------|----------------------|----------------------|
|           | MAR-30-1996          | JUN-29-1996          | SEP-28-1996          |
|           | 39,300               | 79,500               | 85,000               |
|           | 0                    | 0                    | 0                    |
|           | 454,900              | 454,200              | 473,800              |
|           | 0                    | 0                    | 0                    |
|           | 335,200              | 344,400              | 342,400              |
|           | 875,200              | 920,400              | 941,000              |
|           | 1,196,400            | 1,202,000            | 1,219,100            |
|           | 641,700              | 646,000              | 656,500              |
|           | 1,628,400            | 1,668,600            | 1,689,600            |
|           | 348,400              | 371,400              | 397,300              |
|           | 384,000              | 373,300              | 350,600              |
|           | 0                    | 0                    | 0                    |
|           | 0                    | 0                    | 0                    |
|           | 230,800              | 230,900              | 230,900              |
|           | 512,500              | 534,800              | 556,800              |
| 1,628,400 | 1,668,600            | 1,689,600            |                      |
|           | 635,300              | 1,312,500            | 1,985,400            |
|           | 635,300              | 1,312,500            | 1,985,400            |
|           | 429,300              | 882,300              | 1,330,700            |
|           | 429,300              | 882,300              | 1,330,700            |
|           | 0                    | 0                    | 0                    |
|           | 0                    | 0                    | 0                    |
|           | 6,500                | 11,900               | 17,100               |
|           | 47,000               | 104,500              | 163,500              |
|           | 17,400               | 42,300               | 63,600               |
| 29,600    | 62,200               | 99,900               |                      |
|           | 0                    | 0                    | 0                    |
|           | 0                    | 0                    | 0                    |
|           | 29,600               | 62,200               | 99,900               |
|           | .33                  | .70                  | 1.12                 |
|           | 0                    | 0                    | 0                    |

The above Financial Data Schedule includes the effect of the two-for-one stock split declared on April 17, 1996. Prior period Financial Data Schedules have not been restated for this stock split. In December 1996, the company restated Property, Plant and Equipment and its related Accumulated Depreciation and Amortization to include capitalized computer software costs. The above Financial Data Schedule has been restated to reflect this change.



## Exhibit 27(ii)

THE STANLEY WORKS AND SUBIDIARIES  
RESTATEd FINANCIAL DATA SCHEDULE

This schedule contains summary financial information extracted from The Stanley Works and Subsidiaries Consolidated Balance Sheets and Statements of Earnings and is qualified in its entirety by reference to such financial statements.

1,000

|           | 3-MOS       | 6-MOS       | 9-MOS       | YEAR        | YEAR        |        |
|-----------|-------------|-------------|-------------|-------------|-------------|--------|
|           | DEC-30-1995 | DEC-30-1995 | DEC-30-1995 | DEC-30-1995 | DEC-31-1994 |        |
|           | APR-01-1995 | JUL-01-1995 | SEP-30-1995 | DEC-30-1995 | DEC-31-1994 |        |
|           |             | 40,500      | 44,800      | 48,500      | 75,400      | 69,300 |
|           | 0           | 0           | 0           | 0           | 0           | 0      |
|           | 428,700     | 436,600     | 453,400     | 456,900     | 431,200     |        |
|           | 0           | 0           | 0           | 18,200      | 20,900      |        |
|           | 406,600     | 415,600     | 391,100     | 349,100     | 369,200     |        |
|           | 914,000     | 932,400     | 928,600     | 915,100     | 888,500     |        |
|           | 1,182,300   | 1,197,700   | 1,199,000   | 1,186,200   | 1,158,900   |        |
|           | 607,600     | 623,600     | 636,400     | 629,700     | 586,200     |        |
|           | 1,728,400   | 1,737,100   | 1,701,200   | 1,670,000   | 1,701,100   |        |
| 424,700   | 421,200     | 414,400     | 387,700     | 387,700     | 421,500     |        |
|           | 406,200     | 396,300     | 396,300     | 391,100     | 387,100     |        |
|           | 0           | 0           | 0           | 0           | 0           |        |
|           | 0           | 0           | 0           | 0           | 0           |        |
|           | 115,400     | 115,400     | 115,400     | 115,400     | 115,400     |        |
|           | 634,500     | 651,500     | 634,300     | 619,200     | 628,800     |        |
| 1,728,400 | 1,737,100   | 1,701,200   | 1,670,000   | 1,701,100   |             |        |
|           | 643,300     | 1,298,800   | 1,954,500   | 2,624,300   | 2,510,900   |        |
| 643,300   | 1,298,800   | 1,954,500   | 2,624,300   | 2,510,900   |             |        |
|           | 437,600     | 881,200     | 1,329,200   | 1,789,700   | 1,684,000   |        |
|           | 0           | 0           | 0           | 0           | 0           |        |
|           | 0           | 0           | 0           | 0           | 0           |        |
| 7,500     | 15,600      | 23,200      | 30,300      | 29,000      |             |        |
| 46,300    | 97,100      | 104,000     | 112,800     | 201,800     |             |        |
| 17,600    | 36,900      | 45,500      | 53,700      | 76,500      |             |        |
| 28,700    | 60,200      | 58,500      | 59,100      | 125,300     |             |        |
|           | 0           | 0           | 0           | 0           | 0           |        |
|           | 0           | 0           | 0           | 0           | 0           |        |
|           | 0           | 0           | 0           | 0           | 0           |        |
|           | 28,700      | 60,200      | 58,500      | 59,100      | 125,300     |        |
|           | .65         | 1.36        | 1.32        | 1.33        | 2.80        |        |
|           | 0           | 0           | 0           | 0           | 0           |        |

In December 1996, the company restated Property, Plant and Equipment and its related Accumulated Depreciation and Amortization to include capitalized software costs. The above Financial Data Schedule has been restated to reflect this change.

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES

THE STANLEY WORKS 401 (K) SAVINGS PLAN

Years ended December 31, 1996 and 1995

The Stanley Works 401(k) Savings Plan

Audited Financial Statements  
and Supplemental Schedules

Years ended December 31, 1996 and 1995

CONTENTS

|  |    |
|--|----|
| Report of Independent Auditors.....  | 1  |
| Audited Financial Statements   |    |
| Statement of Financial Condition at December 31, 1996.....   | 2  |
| Statement of Financial Condition at December 31, 1995.....   | 3  |
| Statement of Income and Changes in Plan Equity for the Year Ended<br>December 31, 1996.....        | 4  |
| Statement of Income and Changes in Plan Equity for the Year Ended<br>December 31, 1995.....        | 5  |
| Notes to Financial Statements.....   | 6  |
| Supplemental Schedules   |    |
| Assets Held for Investment.....  | 11 |
| Transactions or Series of Transactions in Excess of 5% of the Current<br>Value of Plan Assets..... | 12 |

Report of Independent Auditors

Pension Committee of The Board of Directors  
The Stanley Works

We have audited the accompanying statements of financial condition of The Stanley Works 401(k) Savings Plan as of December 31, 1996 and 1995, and the related statements of income and changes in plan equity for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial condition of the Plan at December 31, 1996 and 1995, and its income and changes in plan equity for the years then ended, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of assets held for investment as of December 31, 1996, and transactions or series of transactions in excess of 5% of the current value of plan assets for the year then ended, are presented for purposes of complying with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, and are not a required part of the financial statements. The supplemental schedules have been subjected to the auditing procedures applied in our audit of the 1996 financial statements and, in our opinion, are fairly stated in all material respects in relation to the 1996 financial statements taken as a whole.

Ernst & Young LLP

Hartford, Connecticut  
March 13, 1997

The Stanley Works 401(k) Savings Plan

Statement of Financial Condition

December 31, 1996

|                                       | STANLEY STOCK FUND | LOAN FUND     | UNALLOCATED STANLEY<br>STOCK FUND | TOTAL          |
|---------------------------------------|--------------------|---------------|-----------------------------------|----------------|
| <b>ASSETS</b>                         |                    |               |                                   |                |
| Investments, at current market value: |                    |               |                                   |                |
| The Stanley Works Common Stock:       |                    |               |                                   |                |
| 9,449,808 shares (cost                |                    |               |                                   |                |
| \$137,198,542)                        | \$ 255,144,816     |               |                                   | \$ 255,144,816 |
| 10,800,908 shares (cost               |                    |               | \$ 291,624,516                    | 291,624,516    |
| \$194,540,603)                        |                    |               | 284,230                           | 4,374,209      |
| Short-term investments                | 4,089,979          |               |                                   |                |
|                                       | -----              |               | -----                             | -----          |
|                                       | 259,234,795        |               | 291,908,746                       | 551,143,541    |
| Dividends receivable                  | 7,557              |               | 1,240                             | 8,797          |
| Loans to participants                 |                    | \$ 11,495,638 |                                   | 11,495,638     |
|                                       | -----              | -----         | -----                             | -----          |
|                                       | \$ 259,242,352     | \$ 11,495,638 | \$ 291,909,986                    | \$ 562,647,976 |
| =====                                 |                    |               |                                   |                |
| <b>LIABILITIES AND PLAN EQUITY</b>    |                    |               |                                   |                |
| Liabilities:                          |                    |               |                                   |                |
| Due to Retirement Plan for Salaried   |                    |               |                                   |                |
| Employees of The Stanley Works        | \$ 262,146         |               |                                   | \$ 262,146     |
| Debt                                  |                    |               | \$ 234,789,748                    | 234,789,748    |
|                                       | -----              |               | -----                             | -----          |
|                                       | 262,146            |               | 234,789,748                       | 235,051,894    |
| Plan equity                           | 258,980,206        | \$ 11,495,638 | 57,120,238                        | 327,596,082    |
|                                       | -----              | -----         | -----                             | -----          |
|                                       | \$ 259,242,352     | \$ 11,495,638 | \$ 291,909,986                    | \$ 562,647,976 |
| =====                                 |                    |               |                                   |                |

See accompanying notes.

The Stanley Works 401(k) Savings Plan

Statement of Financial Condition

December 31, 1995

|  | STANLEY STOCK FUND | LOAN FUND     | UNALLOCATED STANLEY STOCK FUND | TOTAL          |
|--|--------------------|---------------|--------------------------------|----------------|
| <b>ASSETS</b>  |                    |               |                                |                |
| Investments, at current market value:                              |                    |               |                                |                |
| The Stanley Works Common Stock:                                    |                    |               |                                |                |
| 9,728,616 shares (cost \$140,995,052)                              | \$ 250,511,862     |               |                                | \$ 250,511,862 |
| 11,662,126 shares (cost \$208,984,854)                             |                    |               | \$ 300,299,745                 | 300,299,745    |
| Short-term investments   | 1,092,286          |               | 1,535,453                      | 2,627,739      |
|  | 251,604,148        |               | 301,835,198                    | 553,439,346    |
| Dividends and interest receivable                                  | 1,762,357          |               | 568,340                        | 2,330,697      |
| Loans to participants  |                    | \$ 11,671,739 |                                | 11,671,739     |
|  | \$ 253,366,505     | \$ 11,671,739 | \$ 302,403,538                 | \$ 567,441,782 |
| <b>LIABILITIES AND PLAN EQUITY</b>                                 |                    |               |                                |                |
| Liabilities:   |                    |               |                                |                |
| Due to Retirement Plan for Salaried Employees of The Stanley Works | \$ 262,146         |               |                                | \$ 262,146     |
| Debt   |                    |               | \$ 244,296,925                 | 244,296,925    |
|  | 262,146            |               | 244,296,925                    | 244,559,071    |
| Plan equity  | 253,104,359        | \$ 11,671,739 | 58,106,613                     | 322,882,711    |
|  | \$ 253,366,505     | \$ 11,671,739 | \$ 302,403,538                 | \$ 567,441,782 |

See accompanying notes.

The Stanley Works 401(k) Savings Plan  
Statement of Income and Changes in Plan Equity  
Year ended December 31, 1996

|   | STANLEY STOCK FUND | LOAN FUND     | UNALLOCATED STANLEY<br>STOCK FUND | TOTAL          |
|---|--------------------|---------------|-----------------------------------|----------------|
| Investment income:  |                    |               |                                   |                |
| Dividends   | \$ 6,909,565       |               | \$ 8,160,284                      | \$ 15,069,849  |
| Interest  | 93,635             | \$ 680,930    | 6,224                             | 780,789        |
|   | 7,003,200          | 680,930       | 8,166,508                         | 15,850,638     |
| Net realized and unrealized appreciation<br>in The Stanley Works Common Stock | 16,422,570         |               | 5,764,892                         | 22,187,462     |
| Contributions:  |                    |               |                                   |                |
| Employee  | 19,968,699         |               |                                   | 19,968,699     |
| Employer  | 6,232,568          |               |                                   | 6,232,568      |
|   | 26,201,267         |               |                                   | 26,201,267     |
| Withdrawals:  |                    |               |                                   |                |
| Cash  | (34,756,301)       |               |                                   | (34,756,301)   |
| The Stanley Works Common Stock  | (4,783,322)        |               |                                   | (4,783,322)    |
|   | (39,539,623)       |               |                                   | (39,539,623)   |
| Administrative expenses   | (435,997)          |               |                                   | (435,997)      |
| Interest expense  |                    |               | (19,550,376)                      | (19,550,376)   |
| Interfund transfers - net   | (3,775,570)        | (857,031)     | 4,632,601                         |                |
| Net increase (decrease)   | 5,875,847          | (176,101)     | (986,375)                         | 4,713,371      |
| Plan equity at beginning of year  | 253,104,359        | 11,671,739    | 58,106,613                        | 322,882,711    |
| Plan equity at end of year  | \$ 258,980,206     | \$ 11,495,638 | \$ 57,120,238                     | \$ 327,596,082 |

See accompanying notes.

The Stanley Works 401(k) Savings Plan  
Statement of Income and Changes in Plan Equity  
Year ended December 31, 1995

|   | STANLEY STOCK FUND | LOAN FUND     | UNALLOCATED STANLEY<br>STOCK FUND | TOTAL          |
|---|--------------------|---------------|-----------------------------------|----------------|
| Investment income:  |                    |               |                                   |                |
| Dividends   | \$ 6,727,064       |               | \$ 8,521,529                      | \$ 15,248,593  |
| Interest  | 97,704             | \$ 379,698    | 38,082                            | 515,484        |
|   | 6,824,768          | 379,698       | 8,559,611                         | 15,764,077     |
| Net realized and unrealized appreciation<br>in The Stanley Works Common Stock   | 75,850,892         |               | 91,180,389                        | 167,031,281    |
| Contributions:  |                    |               |                                   |                |
| Employee  | 20,019,947         |               |                                   | 20,019,947     |
| Employer  | 14,425,522         |               |                                   | 14,425,522     |
|   | 34,445,469         |               |                                   | 34,445,469     |
| Withdrawals:  |                    |               |                                   |                |
| Cash  | (15,517,219)       |               |                                   | (15,517,219)   |
| The Stanley Works Common Stock  | (4,627,524)        |               |                                   | (4,627,524)    |
|   | (20,144,743)       |               |                                   | (20,144,743)   |
| Transfers to the Retirement Plan for<br>Salaried Employees of The Stanley Works | (102,594)          |               |                                   | (102,594)      |
| Administrative expenses   | (51,639)           |               |                                   | (51,639)       |
| Interest expense  |                    |               | (18,535,301)                      | (18,535,301)   |
| Interfund transfers - net   | (8,498,016)        | 2,428,258     | 6,069,758                         | -              |
| Net increase  | 88,324,137         | 2,807,956     | 87,274,457                        | 178,406,550    |
| Plan equity/(deficit) at beginning of year                                      | 164,780,222        | 8,863,783     | (29,167,844)                      | 144,476,161    |
| Plan equity at end of year  | \$ 253,104,359     | \$ 11,671,739 | \$ 58,106,613                     | \$ 322,882,711 |

See accompanying notes.

The Stanley Works 401(k) Savings Plan

Notes to Financial Statements

December 31, 1996

1. DESCRIPTION OF THE PLAN

The Stanley Works 401(k) Savings Plan (the "Savings Plan") operates as a leveraged employee stock ownership plan, is designed to comply with the Internal Revenue Code of 1986, as amended, and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended. The Savings Plan is a defined contribution plan for eligible United States salaried and hourly paid employees of The Stanley Works (the "Company").

Each year, participants may contribute, through pre-tax payroll deductions, generally up to 15% of their compensation, as defined in the Savings Plan Agreement. Such contributions are matched by the Company in an amount equal to 50% of the participant's contribution up to a maximum matching contribution of 3 1/2% of the participant's compensation.

Participant and Company contributions are invested in the Stanley Stock Fund with a guarantee, which, if necessary, is satisfied by the Retirement Plan for Salaried Employees of The Stanley Works or by the Pension Plan for Hourly Paid Employees of The Stanley Works, that the investment return on such stock acquired with employee contributions will not be less than an investment return based on two-year U.S. Treasury notes.

Employees are fully vested as to amounts in their savings accounts attributable to their own contributions and earnings thereon and amounts transferred from the other qualified plans on their behalf. All participants are vested in 100% of the value of the Company matching contributions made on their behalf after five years of service, with no vesting in the matching contributions during the first through fifth years of service.

The assets of the Savings Plan are held in trust by an independent corporate trustee, State Street Bank and Trust Company (the "Trustee") pursuant to the terms of a written Trust Agreement between the Trustee and the Company.

Benefits generally are distributed upon termination of employment. Normally, a lump-sum distribution is made in cash or shares of the Company's Common Stock (hereinafter referred to as Common Stock, Stanley Stock, or shares), at the election of the participant, from the Stanley Stock Fund.

During active employment, subject to financial hardship rules, participants may withdraw, in cash only, all or a portion of vested amounts in their accounts.

The Stanley Works 401(k) Savings Plan  
Notes to Financial Statements (continued)

1. DESCRIPTION OF THE PLAN (CONTINUED)

Participants may borrow from their savings account up to an aggregate amount equal to the lesser of \$50,000 or 50% of the value of their vested interest in such accounts with a minimum loan of \$1,000. The \$50,000 loan amount limitation is reduced by the participant's highest outstanding loan balance during the 12 months preceding the date the loan is made. Each loan is evidenced by a negotiable promissory note bearing a rate of interest equal to the prime rate as reported in The Wall Street Journal on the first business day of the month immediately preceding the calendar quarter during which the loan was made, which is payable, through payroll deductions, over a term of not more than five years. Participants are allowed ten years to repay the loan if the proceeds are used to purchase a principal residence. Only one loan per participant may be outstanding at any time.

If a loan is outstanding at the time a distribution becomes payable to a participant (or beneficiary), the distribution is made net of the loan outstanding, and the distribution shall fully discharge the Savings Plan with respect to the participant's account value attributable to the outstanding loan balance.

The Savings Plan borrowed \$95,000,000 in 1989 from a group of financial institutions and \$180,000,000 in 1991 from the Company (see Notes 3 and 4) to acquire 5,868,088 and 9,696,968 shares, respectively, of Common Stock from the Company's treasury and previously unissued shares. The shares purchased from the proceeds of the loans were placed in the Unallocated Stanley Stock Fund (the "Unallocated Fund"). Under the 1989 loan agreement, the Company guaranteed the loan and is obligated to make annual contributions sufficient to enable the Plan to repay the loan plus interest.

The Unallocated Fund makes monthly transfers of shares, in accordance with The Savings Plan provisions, to the Stanley Stock Fund in return for proceeds equivalent to the average fair market value of the shares for the month subsequent to the last transfer. These proceeds, along with dividends received on allocated and unallocated shares and additional employee and Company contributions, if necessary, are used to make monthly payments of principal and interest on the debt. As dividends on the allocated shares are applied to the payment of debt service, a number of shares having a fair market value at least equal to the amount of the dividends so applied are allocated to the savings accounts of participants who would otherwise have received cash dividends. The excess of unallocated dividends over the amount necessary for principal and interest along with forfeitures of nonvested employee accounts are used to reduce future Company matching contributions.

The Stanley Works 401(k) Savings Plan  
Notes to Financial Statements (continued)

1. DESCRIPTION OF THE PLAN (CONTINUED)

The fair market value of shares released from the Unallocated Fund pursuant to loan repayments made during any year may exceed the total of employee contributions and Company matching contributions for that year. If that occurs, all participants who made contributions at any time during that year and who are employed by the Company on the last day of that year receive, on a pro rata basis, such excess value as an additional allocation of Stanley Stock for that year.

Each participant is entitled to exercise voting rights attributable to the shares allocated to their account. The Trustee is not permitted to vote participant shares for which instructions have not been given by the participant. Shares in the Unallocated Fund are voted by the Trustee in the same proportion as allocated shares.

The Company reserves the right to terminate the Savings Plan at any time, subject to its provisions. Upon such termination of the Savings Plan, the interest of each participant in the trust fund will become vested and be distributed to such participant or his or her beneficiary at the time prescribed by the Savings Plan terms and the Internal Revenue Code.

The Savings Plan sponsor has engaged William Mercer, Inc., to maintain separate accounts for each participant. Such accounts are credited with each participant's contributions, the allocated portion of the Company's matching contributions, related gains, losses and dividend income, and loan activity.

There were 10,805 and 11,358 participants (10,131 and 10,648 of whom were active employees) in the plan as of December 31, 1996 and 1995, respectively, of whom 2,537 and 2,616, respectively, had loans outstanding.

At December 31, 1996 and 1995, benefits payable to terminated vested participants amounted to \$1,800,388 and \$6,801,190, respectively.

The Stanley Works 401(k) Savings Plan  
Notes to Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS

The Savings Plan investments consist primarily of shares of Stanley Stock. Stanley Stock is traded on a national exchange and is valued at the last reported sales price on the last business day of the plan year. On April 17, 1996, the Board of Directors of the Company declared a two-for-one common stock split. All share amounts have been restated to reflect the stock split. Short-term investments consist of short-term bank-administered trust funds which earn interest daily at rates approximating U.S. Government securities; cost approximates market value.

DIVIDEND INCOME

Dividend income is accrued on the ex-dividend date.

GAINS OR LOSSES ON SALES OF INVESTMENTS

Gains or losses realized on the sales of investments are determined based on average cost.

EXPENSES

Administrative expenses not paid by the Company are paid by the Savings Plan.

3. DEBT

Debt consisted of the following at December 31:

|  | 1996           | 1995           |
|--|----------------|----------------|
|  | -----          | -----          |
| Notes payable in monthly installments to 2001 with interest at 7.71%               | \$ 57,488,780  | \$ 66,841,290  |
| Notes payable to the Company in monthly installments to 2026 with interest at 8.3% | 177,300,968    | 177,455,635    |
|  | -----          | -----          |
|  | \$ 234,789,748 | \$ 244,296,925 |
|  | =====          | =====          |

The scheduled maturities of debt for the next five years are as follows:  
1997--\$10,211,000; 1998--\$11,067,000; 1999--\$11,994,000; 2000--\$13,000,000;  
and 2001--\$10,433,000.

The Stanley Works 401(k) Savings Plan  
Notes to Financial Statements (continued)

3. DEBT (CONTINUED)

The notes payable to the Company are secured by shares held in the Unallocated Stock Fund. The number of shares held as security is reduced as shares are released to Stanley Stock Fund pursuant to principal and interest payments. During the year, 255,398 shares were released and at December 31, 1995, 8,226,410 shares are pledged as security.

Payment of the Savings Plan's debt has been guaranteed by the Company. Should the principal and interest due exceed the dividends paid on shares in the Stanley Stock and Unallocated Stock Funds, and employee and Company matching contributions, the Company is responsible for funding such shortfall.

4. TRANSACTIONS WITH PARTIES-IN-INTEREST

Fees paid during 1996 and 1995 for management and other services rendered by parties-in-interest were based on customary and reasonable rates for such services. The majority of such fees were paid by the Company. Fees incurred and paid by the Savings Plan during 1996 and 1995 were \$435,997 and \$51,639, respectively.

In 1991, the Savings Plan borrowed \$180,000,000 from the Company, the proceeds of which were used to purchase 9,696,968 shares of stock from the Company. The Savings Plan made \$14,875,901 and \$14,297,365 of principal and interest payments related to such debt in 1996 and 1995, respectively; at December 31, 1996, \$177,300,968 was outstanding on such debt.

5. INCOME TAX STATUS

The Internal Revenue Service has ruled that the Savings Plan and the trust qualify under Sections 401(a) and 401(k) of the Internal Revenue Code (IRC) and are therefore not subject to tax under present income tax law. Once qualified, the Savings Plan is required to operate in accordance with the IRC to maintain its qualification. The Pension Committee is not aware of any course of action or series of events that have occurred that might adversely affect the Savings Plan's qualified status.

The Stanley Works 401(k) Savings Plan

Assets Held for Investment

December 31, 1996

| IDENTITY OF ISSUE, BORROWER, OR<br>SIMILAR PARTY | DESCRIPTION OF INVESTMENT, INCLUDING<br>MATURITY DATE, RATE OF INTEREST, PAR<br>OR MATURITY VALUE | COST                | CURRENT VALUE       |
|--|---|---------------------|---------------------|
| <hr/>  |   |                     |                     |
| Common Stock:                                    |   |                     |                     |
| The Stanley Works*                               | 20,250,716 shares of Common Stock;<br>par value \$2.50 per share                                  | \$331,739,145       | \$546,769,332       |
| Trust Funds:                                     |   |                     |                     |
| State Street Bank and Trust<br>Company* (GSTIF)  | Short-Term Investment Fund--<br>United States Government securities                               | 4,087,967           | 4,087,967           |
| State Street Bank and Trust<br>Company* (STIF)   | Short-Term Investment Fund--<br>Pooled Bank Fund  | 286,242             | 286,242             |
| Loans to participants                            | Promissory notes at prime rate with<br>maturities of five years or ten<br>years                   | 11,495,638          | 11,495,638          |
| Total investments                                |   | <hr/> \$347,608,992 | <hr/> \$562,639,179 |
|  |   | <hr/>               |                     |

\* Indicates party-in-interest to the Plan.

The Stanley Works 401(k) Savings Plan

Transactions or Series of Transactions in Excess of  
5% of the Current Value of Plan Assets

Year Ended December 31, 1996

| IDENTITY OF PARTY INVOLVED  | PURCHASE DESCRIPTION OF ASSETS  | SELLING PRICE | COST OF ASSET | CURRENT VALUE OF ASSET ON TRANSACTION DATE | NET GAIN (LOSS) |
|---|---|---------------|---------------|--|-----------------|
| -----   |   |               |               |  |                 |
| Category (iii) - Series of transactions in excess of 5 percent of plan assets |   |               |               |  |                 |
| State Street Bank and Trust Company*  | Short-Term Investment Fund-<br>United States<br>Government Securities |               | \$37,320,772  | \$37,320,772                               |                 |
| State Street Bank and Trust Company*  | Short-Term Investment Fund-<br>United States<br>Government Securities | \$34,323,078  |               | 34,323,078                                 |                 |

There were no category (i), (ii) or (iv) reportable transactions during 1996.

\* Indicates party-in-interest to the Plan.