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

Form 10-K
ANNUAL REPORT

(Mark One)

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

For the fiscal year ended January 2, 1999

___ 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 INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
1000 STANLEY DRIVE NEW BRITAIN, CONNECTICUT	06053
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(860) 225-5111
(REGISTRANT'S TELEPHONE NUMBER)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock--Par Value $2.50 Per Share	New York Stock Exchange Pacific Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

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

Yes X No ___

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

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 30, 1999 was approximately $2.2 billion. As of March 30, 1999, there were 88,874,717 shares of Common Stock, par value $2.50 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareowners for the year ended January 2, 1999 are incorporated by reference into Parts I and II.

Portions of the definitive Proxy Statement dated April 1, 1999, filed with the Commission pursuant to Regulation 14A, are incorporated by reference into Part III.

FORM 10-K

Part I

Item 1. Business

1(a) General Development of Business. (i) General. The Stanley Works ("Stanley" or the "Company") was founded in 1843 by Frederick T. Stanley and incorporated in 1852. Stanley is a worldwide producer of tools and door products for professional, industrial and consumer use. Stanley(R) is a brand recognized around the world for quality and value.

In 1998, Stanley had net sales of $2.7 billion and employed approximately 18,000 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) July 1997 Restructuring Initiatives. In 1997, the Company began a major restructuring to consolidate manufacturing and distribution operations, simplify the organizational structure and make other changes to position itself as a low cost producer. The savings associated with those changes are targeted for reinvestment in growth initiatives such as new product and brand development.

The Company made substantial progress on its restructuring initiatives in 1998. The plan called for spending $340 million (approximately $240 million of restructuring charges recorded in 1997 and $100 million of transition costs from 1997 to 1999) to generate annual savings of $145 million, all of which was to be reinvested in growth initiatives. At the end of the 1998 fiscal year, the Company had closed 39 facilities and reduced employment by approximately 3,000 people. Annual savings of $65 million have been generated by the initiatives, all of which have been reinvested into funding growth.

In general the plans are progressing as originally identified, however, there has been a shift toward closing more distribution centers, which will result in lower severance costs offset by additional asset write offs. In addition, the Year 2000 systems remediation activities have delayed several of the functional centralization projects that are dependent upon achieving common systems. Those initiatives may not be completely implemented until the end of 2000; however, the delay in timing is not expected to seriously affect the anticipated results of the restructuring program. The Company anticipates closing 20 additional facilities as part of the initiatives.

1(b) Financial Information About Segments. Financial information regarding the Company's business segments is incorporated herein by reference from pages 31-32 and 36 of the

Company's Annual Report to Shareowners for the year ended January 2, 1999.

1(c) Narrative Description of Business. The Company's operations are classified into two business segments: Tools and Doors.

Tools. The Tools segment manufactures and markets carpenters, mechanics, pneumatic and hydraulic tools as well as tool sets. These products are distributed directly to retailers (including, home centers, mass merchants and retail lumber yards) and end users as well as through third party distributors. Carpenters tools include hand tools such as measuring instruments, planes, hammers, knives and blades, screwdrivers, saws, garden tools, chisels, boring tools, masonry, tile and drywall tools, as well as electronic stud sensors, levels, alignment tools and elevation measuring systems. The Company markets its carpenters tools under the Stanley(R), IntelliTools(TM), Contractor Grade(TM), and Goldblatt(R) brands.

Mechanics tools include consumer, industrial and professional mechanics hand tools, including, wrenches, sockets, electronic diagnostic tools, tool boxes and high-density industrial storage and retrieval systems. Mechanics tools are marketed under the Stanley(R), Proto(R), Mac(R), Zag(R) and Blackhawk(TM) brands.

Pneumatic tools include STANLEY(R) BOSTITCH(R) fastening tools and fasteners (nails and staples) used for construction, remodeling, furniture making, pallet manufacturing and consumer use and pneumatic air tools (these are high performance, precision assembly tools, controllers and systems for tightening threaded fasteners used chiefly by vehicle manufacturers).

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

Doors. The Doors segment manufactures and markets commercial and residential doors, both automatic and manual, as well as closet doors and systems, home decor and door and consumer hardware. Products in the Doors segment include, residential insulated steel, reinforced fiberglass and wood entrance door systems, vinyl patio doors, mirrored closet doors and closet organizing systems, automatic doors as well as related door hardware products ranging from hinges, hasps, bolts and latches to shelf brackets. Door products are marketed under the Stanley(R), Magic-Door(R), Stanley-Acmetrack(TM), Monarch(TM) and Acme(R) brands and are sold directly to end users and retailers as well as through third party distributors.

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

The Company encounters active competition in all of its businesses from both larger and smaller companies that offer the same or similar products and services or that produce different products appropriate for the same uses. The Company has a large number of competitors, however, aside from a small number of competitors in the consumer hand tool and consumer hardware business who produce a range of products somewhat comparable to the Company's, the majority of its competitors compete only with respect to one or more individual products within a particular line. The Company believes that it is the largest manufacturer of hand tools in the world featuring a broader line than any other toolmaker. The Company also believes that it is the leader in the manufacture and sale of pneumatic fastening tools and related fasteners to the construction, furniture and pallet industries as well as the leading manufacturer of hand-held hydraulic tools used for heavy construction, railroads, utilities and public works. In the Doors segment, the Company believes that it is a U.S. leader in the manufacture and sale of insulated steel residential entrance doors, commercial hardware products, mirrored closet doors and hardware for sliding, folding and pocket doors and the U.S. leader in the manufacture, sale and installation of 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. In 1998, approximately 14% of the Company's consolidated sales in both the Tools and Doors segments were to The Home Depot. Because a consolidation of retailers in the home center and mass merchant distribution channel is occurring, these customers constitute a growing percent of the Company's sales and are important to the Company's operating results. While this consolidation and the domestic and international expansion of these large retailers provide the Company with opportunities for growth, the increasing size and importance of individual customers creates a certain degree of exposure to potential volume loss. The loss of Home Depot as well as certain of the other larger home centers as customers would have a material adverse effect on each of the Company's business segments until either such customers are replaced or the Company makes the necessary adjustments to compensate for the loss of business.

Despite the trend toward customer consolidation, the Company has a diversified customer base and is seeking to broaden its customer base further in each business segment by identifying and seeking new channels and customers that it does not currently serve.

Raw Materials. The Company's products are manufactured of steel and other metals, wood and plastic. The raw materials required are available from a number of sources at competitive prices and the Company has multi-year contracts with many of its key suppliers. The Company has experienced no difficulties in obtaining supplies in recent periods.

Backlog. At February 6, 1999, the Company had $141 million in unfilled orders compared with approximately $135 million in unfilled orders at February 7, 1998. 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. In 1998, the Company experienced problems with its customer service levels. As a result, the Company has undertaken a company wide program to eliminate low selling stock keeping units ("SKUs") in order to streamline the manufacturing process and is implementing a Production-Sales-Inventory system to align production with sales plans by SKU that have been developed for the Company's major customers.

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 both business segments. These well-known trademarks enjoy a reputation for quality and value and are among the world's most trusted brand names. In 1998, the Company introduced its new tagline, "Make Something Great(TM)", which is the centerpiece of the Company's new brand strategy for both segments. 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 also 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 or judicial 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 January 2, 1999, the Company had reserves of approximately $31 million, primarily for remediation activities associated with company-owned or formerly 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 1998, the Company had approximately 18,000 employees, approximately 11,000 of whom were employed in the U.S. Of these U.S. employees, approximately 16% are covered by collective bargaining agreements with approximately 8 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 1999, 2000 and 2001. 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. The statements contained in the Annual Report to Shareowners (incorporated by reference in this document) regarding the Company's ability to achieve operational excellence and deliver sustained, profitable growth, (e.g., sales growth at twice the industry rate, earnings growth in the low to mid teens and dividend growth), are forward looking and inherently subject to risk and uncertainty.

The Company's drive for operational excellence is focused on improving customer service, consolidating multiple manufacturing and distribution facilities, outsourcing non-core activities and converting to common systems. The ability to implement the initiatives associated with these goals is dependent on the Company's ability to increase the effectiveness of its routine business processes and to develop and execute comprehensive plans for facility consolidations, the ability of the organization to complete the transition to a product management structure without losing focus on the business, the availability of vendors to perform non-core functions being outsourced, 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 other unforeseen events.

The Company's ability to generate sustained, profitable growth is dependent on successfully freeing up resources to fund new product and brand development and new ventures to broaden its markets and to defend market share in the face of price competition. Success at developing new products will depend on the ability of the new product development process to foster creativity and identify viable new product ideas as well as the Company's ability to attract new product engineers and to design and implement strategies to effectively commercialize the new product ideas. The achievement of growth through new ventures will depend upon the ability to successfully identify, negotiate, consummate and integrate into operations acquisitions, joint ventures and/or strategic alliances.

The Company's ability to achieve and sustain the improvements resulting from these initiatives will be dependent on the extent of pricing pressure and other changes in its competitive markets, the continued consolidation of customers in consumer channels, increasing global competition, changes in trade, monetary and fiscal policies and laws, inflation, currency exchange fluctuations, the impact of currency exchange rates on the competitiveness of products and recessionary or expansive trends in the economies in which the company operates.

Many statements regarding the state of the Company's Year 2000 ("Y2K") readiness contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Annual Report are also forward looking and inherently subject to risk and uncertainty. The nature, scope and cost of the Company's Y2K project is based on management's best estimates. These estimates are based in part on information obtained from third parties (including customers, suppliers and consultants hired to assist in the Y2K compliance program) and in part on numerous assumptions regarding future events (including the ability of software vendors to implement new operating systems or deliver upgrades and repairs as promised, and the availability of new computer hardware and consultants to meet the Company's planned needs). Due to the general level of uncertainty inherent in Y2K analysis, the Company is unable to determine conclusively whether the consequences of potential Y2K failures by either the Company or its customers and key suppliers will have a material impact on the Company's results of operations, liquidity or financial condition. It is likely, however, that if the Company is unable to complete its Y2K project as planned or if the Company's key suppliers and customers or a sizable number of its smaller suppliers and customers fail to remediate their systems, this will have a material adverse impact on the Company's results of operations, liquidity and financial condition. The Company's Y2K project is expected to significantly reduce the Company's level of uncertainty about the Y2K problem, and to reduce the likelihood of risk of interruptions to routine business operations.

1(d) Financial Information About Geographic Areas. Geographic area information on page 36 of the Annual Report to Shareowners for the year ended January 2, 1999 is incorporated herein by reference.

In addition, approximately 14% of the Company's long-lived assets are related to its Israeli operations.

Item 2. Properties.

As of January 2, 1999, Registrant and its subsidiaries owned or leased facilities for manufacturing, distribution and sales offices in 29 states and 31 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, North Carolina; Columbus, Georgetown and Sabina, Ohio; Allentown and Royersford, Pennsylvania; East Greenwich, Rhode Island; Cheraw, South Carolina; Shelbyville, Tennessee; Dallas and Wichita Falls, Texas; Pittsfield and Shaftsbury, Vermont; Heidelberg West and Ingleburn, Australia; Smiths Falls, Canada; Pecky, Czech Republic; Ecclesfield, Hellaby, Manchester and Sheffield, England; Besancon Cedex and Maxonchamp, France; Wieseth, Germany; Chihuahua and Puebla, Mexico; Wroclaw, Poland; Taichung Hsien, Taiwan; and Amphur Bangpakong, Thailand.

Doors

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

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

Tools

Miami, Florida; Covington, Georgia; Fernley, Nevada; Charlotte and Kannapolis, North Carolina; Cleveland and Columbus, Ohio; Milwaukie, Oregon; Carrollton, Texas; Burlington, Canada; and Northampton, England.

Doors

Orlando, Florida; Troy, Michigan; Tupelo, Mississippi; Charlotte, North Carolina; Winchester, Virginia; and Langley, Montreal and Oakville, Canada.

Item 3. Legal Proceedings.

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

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted during the fourth quarter of 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 January 2, 1999:

Name, Age, Birth date	Office	Elected to Office
J.M. Trani (54) (3/15/45)	Chairman and Chief Executive Officer. Joined Stanley December 31, 1996; 1986 President and Chief Executive Officer of GE Medical Systems.	12/31/96
W.D. Hill (49) (9/18/49)	Vice President, Engineering. Joined Stanley August 1997; 1996 Director Product Management - Tool Group, Danaher Tool; 1994 Vice President, Product Development Global Accessories, The Black & Decker Corporation; 1992 Vice President Product Development - N.A. Power Tools, The Black & Decker Corporation.	9/17/97
S.G.H. Kranendijk (47) (12/29/51)	President, Europe. Joined Stanley August 1998; 1997 Chief Executive Officer Poland, Baltics and Belarus, Procter & Gamble, Poland; 1994 Vice President and General Manager laundry, cleaning and paper, Procter & Gamble, Germany.	12/16/98
K.O. Lewis (45) (5/28/53)	Vice President, Marketing and Brand Management. Joined Stanley November 1997; 1996 Executive Vice President Strategic Alliances, Marvel Entertainment Group; 1986 Director Participant Marketing,	11/3/97

	Walt Disney Attractions.	
M.J. Mathieu (47) (2/20/52)	Vice President, Human Resources. Joined Stanley September 1997; 1996 Manager - Human Resources, GE Motors & Industrial Systems (Fort Wayne, Indiana); 1994 Consultant - Executive Staffing, General Electric Company (Fairfield, Connecticut); 1989 Consultant - Union Relations, General Electric Company.	9/17/97
P.W. Russo (45) (5/23/53)	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
J.M. Turner (52) (7/23/46)	President, Consumer Sales Americas. Joined Stanley December 1998; 1994 Vice President-Global Sales Federal Express Corporation; 1987 Managing Director-Government Sales Federal Express Corporation.	12/1/98
J.E. Turpin (52) (6/9/46)	Vice President, Operational Excellence. Joined Stanley in 1970; 1995 Vice President Operations, The Stanley Works; 1992 President & General Manager, Stanley Air Tools.	4/23/97
S.S. Weddle (60) (11/9/38)	Vice President, General Counsel and Secretary. Joined Stanley in 1978.	1/1/88
T.F. Yerkes (43) (9/9/55)	Vice President and Controller. Joined Stanley in 1989; 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 "Shareowners of record at end of year" from pages 26 and 27 and the material captioned "Investor and Shareowner Information" on page 53 of its Annual Report to Shareowners for the year ended January 2, 1999.

Recent Sales of Unregistered Securities

(A) During the fourth fiscal quarter of 1998, 1,136 shares were issued to certain participants in the Company's German Savings Related Share Plans (the "German Savings Plan") and 3,250 shares were issued under the Company's U.K. Savings Related Share Plans (the "U.K. Savings Plan" and, collectively with the German Savings Plan, the "Savings Plan"). Under the Saving Plan, shares are issued to employees who elect at the end of the five year savings period or upon termination of employment to receive the accumulated savings in the form of shares of the Company's stock rather than cash.

(B) Participation in the Savings Plan is offered to all employees of the Company's subsidiaries in the United Kingdom and Germany.

(C) The total dollar value of the shares issued during the quarter was $75,115.13.

Under the German Savings Plan 1,136 shares were issued at $15.8834 per share with an aggregate value of $18,043.54

Under the U.K. Savings Plan:

480 shares were issued at $18.15 per share with an aggregate value of $8,712.00
1,238 shares were issued at $15.5334 per share with an aggregate value of $19,230.35
1,110 shares were issued at $15.8834 per share with an aggregate value of $17,630.57
279 shares were issued at $24.15 per share with an aggregate value of $6,737.85
138 shares were issued at $33.1333 per share with an aggregate value of $4,572.40
5 shares were issued at $37.6833 per share with an aggregate value of $188.42

(D) Neither the options nor the underlying shares have been registered in reliance on an exemption from registration found in several no-action letters issued by the Division of Corporation Finance of the Securities and Exchange Commission. Registration is not required because the Company is a reporting company under the Securities Exchange Act of 1934, its shares are actively traded, the number of shares issuable under the Savings Plans is small relative to the number of shares outstanding, all eligible employees are entitled to participate, the shares are being issued in connection with the employees' compensation, not in lieu of it and there is no negotiation between the Company and the employee regarding the grant.

(E) Under the Savings Plans, employees are given the right to buy a specified number of shares with the proceeds of a "Save-as-You-Earn" savings contract. Under the savings contract, the employee authorizes 60 monthly deductions from his or her paycheck At the end of the five year period, the employee may elect to (i) use all or a part of the accumulated savings to buy all or some of the shares under the employee's options, (ii) leave the accumulated savings with the financial institution that has custody of the funds for an additional two years or (iii) take a cash distribution of the accumulated savings. The option to purchase shares will lapse at the end of the five year period if not exercised at that time.

Item 6. Selected Financial Data. Registrant incorporates by reference pages 26 and 27 of its Annual Report to Shareowners for the year ended January 2, 1999.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Registrant incorporates by reference pages 30 through 35 of its Annual Report to Shareowners for the year ended January 2, 1999.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk. Registrant incorporates by reference the material captioned "Market Risk" on page 33 and Footnote I on pages 43-44 of its Annual Report to Shareowners for the year ended January 2, 1999.

Item 8. Financial Statements and Supplementary Data. The consolidated financial statements and report of independent auditors included on pages 37 to 51 and page 29, respectively, of the Annual Report to Shareowners for the year ended January 2, 1999 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 April 1, 1999.

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 6 through 14 of its definitive Proxy Statement, dated April 1, 1999.

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 April 1, 1999.

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	Items Reported
October 21, 1998	Press Release dated October 21, 1998 announcing third quarter results and fourth quarter dividend.
November 5, 1998	Press Release dated November 5, 1998 announcing the appointment of John M. Turner and the retirement of Thomas E. Mahoney, Jr.

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 24, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 24, 1999 by the following persons on behalf of the Registrant and in the capacities indicated.

John M. Trani	James G. Kaiser
John M. Trani, Chairman, Chief Executive Officer and Director	James G. Kaiser, Director
Theresa F. Yerkes	Eileen S. Kraus
Theresa F. Yerkes, Vice President and Controller (Chief Financial Officer and Chief Accounting Officer)	Eileen S. Kraus, Director
Stillman B. Brown	Hugo E. Uyterhoeven
Stillman B. Brown, Director	Hugo E. Uyterhoeven, Director
Edgar R. Fiedler	Walter W. Williams
Edgar R. Fiedler, Director	Walter W. Williams, Director
Mannie L. Jackson	Kathryn D. Wriston
Mannie L. Jackson, Director	Kathryn D. Wriston, Director

FORM 10-K--ITEM 14(a) (1) and (2)

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 Shareowners for the fiscal year ended January 2, 1999, are incorporated by reference in Item 8:

Report of Independent Auditors

Consolidated Statements of Operations--fiscal years ended January 2, 1999, January 3, 1998 and December 28, 1996.

Consolidated Balance Sheets--January 2, 1999 and January 3, 1998.

Consolidated Statements of Cash Flows--fiscal years ended January 2, 1999, January 3, 1998 and December 28, 1996.

Consolidated Statements of Changes in Shareowners' Equity--fiscal years ended January 2, 1999, January 3, 1998 and December 28, 1996

Notes to Consolidated Financial Statements.

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

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 28, 1999, except for the second paragraph of Note H, as to which the date is February 24, 1999, included in the 1998 Annual Report to Shareowners 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 28, 1999, except for the second paragraph of Note H, as to which the date is February 24, 1999, 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 29, 1999

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following registration statements pertaining to The Stanley Works Account Value Plan of our report dated March 19, 1999, with respect to the financial statements and schedules of The Stanley Works Account Value Plan for the year ended December 31, 1998 included as Exhibit 99(i) to this Annual Report (Form 10-K) for the fiscal year ended January 2, 1999.

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 29, 1999

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
THE STANLEY WORKS AND SUBSIDIARIES
Fiscal years ended January 2, 1999, January 3, 1998 and December 28, 1996
(In Millions of Dollars)

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts-Describe	Deductions- Describe	Balance at End of Period
Fiscal year ended January 2, 1999					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts:					
Current	$19.8	$16.1	$0.8 (B)	$10.0 (A)	$26.7
Noncurrent	0.7	-	-	0.1 (A)	0.6
Fiscal year ended January 3, 1998					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts:					
Current	$22.5	$20.2	($6.8) (B)	$16.1 (A)	$19.8
Noncurrent	0.8	(0.2)	0.1 (B)	-	0.7
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

Notes: (A) Represents doubtful accounts charged off, less recoveries of accounts previously charged off.
(B) Represents net transfers to/from other accounts, foreign currency translation adjustments and acquisitions/divestitures.

EXHIBIT LIST
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(3) (i) Restated Certificate of Incorporation

(ii) By-laws (incorporated reference to Exhibit 3(i) to the Quarterly Report on Form 10-Q for the quarter ended July 4, 1998)

(4) (i) Indenture, dated as of April 1, 1986 between the Company and State Street Bank and Trust Company, as successor trustee, defining the rights of holders of 7-3/8% Notes Due December 15, 2002 and 5.75% Notes Due March 1, 2004 (incorporated by reference to Exhibit 4(a) to Registration Statement No. 33-4344 filed March 27, 1986)

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

(a) Certificate of Designated Officers establishing Terms of 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)

(b) Certificate of Designated Officers establishing Terms of 5.75% Notes Due March 1, 2004

(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)

(a) 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 (incorporated reference to Exhibit 4(iv) to the Annual Report on Form 10-K for the year ended December 28, 1996)

(b) Credit Agreement, dated as of October 21, 1998, among the Company, the Lenders named therein and Citibank, N.A. as agent (incorporated reference to Exhibit 4(iv)(c) to the Quarterly Report on Form 10-Q for the quarter ended October 3, 1998).

(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 (incorporated reference to Exhibit 4(v) to the

Annual Report on Form 10-K for the year ended December 28, 1996)

(10) (i) Executive Agreements (incorporated by reference to Exhibit 10(i) to the Annual Report on Form 10-K for the year ended January 3, 1987)*

(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, as amended (incorporated by reference to Exhibit 10(iii) to the Annual Report on Form 10-K for the year ended January 3, 1998)*

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

(v) Deferred Compensation Plan for Participants in Stanley's Management Incentive Plan effective January 1, 1996 (incorporated by reference to Exhibit 10(v) to the Annual Report on Form 10-K for the year ended December 30, 1995)*

(vi) Supplemental Retirement and Savings Plan for Salaried Employees of The Stanley Works effective as of January 1, 1997 (incorporated by reference to Exhibit 10(vi) to the Annual Report on Form 10-K for the year ended January 3, 1998)*

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

(viii) New 1991 Loan Agreement, dated June 30, 1998, between The Stanley Works, as lender, and Citibank, N.A., as trustee under the trust agreement for the Stanley Account Value Plan, to refinance the 1991 Salaried Employee ESOP Loan and the 1991 Hourly ESOP Loan and

* Management contract or compensation plan or arrangement

their related promissory notes (incorporated by reference to Exhibit 10(ii) to the Quarterly Report on Form 10-Q for the quarter ended July 4, 1998)

(ix) (a) Supplemental Executive Retirement Program effective May 20, 1997 (incorporated by reference to Exhibit 10(xi)(a) to the Annual Report on Form 10-K for the year ended January 3, 1998)*

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

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

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

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

(xii) 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)

(xiii) The Stanley Works Stock Option Plan for Non- Employee Directors, as amended December 18, 1996 (incorporated by reference to Exhibit 10(xvii) to the Annual Report on Form 10-K for the year ended January 3, 1998)

(xiv) 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

(xv) Letter Agreement, dated April 30, 1996 between The Stanley Works and Paul W. Russo (incorporated by reference to Exhibit 10(xx) to the Annual Report on Form 10-K for the year ended January 3, 1998)*

(xvi) 1997 Long-Term Incentive Plan (incorporated by reference to Exhibit 10(xxi) to the Annual Report on Form 10-K for the year ended January 3, 1998)*

(xvii) Agreement, dated June 28, 1998 between The Stanley Works and Stef G.H. Kranendijk

(xviii) Agreement, dated November 16, 1998 between The Stanley Works and John A. Cosentino, Jr.

(11) Statement re computation of per share earnings (the information required to be presented in this exhibit appears in footnote J to the Company's Consolidated Financial Statements set forth in the Annual Report to Shareholders for the year ended January 2, 1999)

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

(13) Annual Report to Shareowners for the year ended January 2, 1999

(21) Subsidiaries of Registrant

(23) Consents of Independent Auditors (at pages F-2 and F-3)

(27) Financial Data Schedule for 1998 Fiscal Year End

(99) (i) Financial Statements and report of independent auditors for the year ended December 31, 1998, of The Stanley Works Account Value 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 the Quarterly Report on Form 10-Q for the quarter ended September 28, 1991)

* Management contract or compensation plan or arrangement

RESTATED CERTIFICATE OF INCORPORATION
OF THE STANLEY WORKS

Section 1. That The Stanley Works, a corporation organized and hitherto and still conducting its business under the joint stock laws of this state, and located and having its principal office at New Britain, may, and shall hereafter, have the right to exercise its corporate franchise, and have and enjoy all the rights, powers and privileges herein granted, and whenever it shall have accepted this resolution by a vote of its shareholders, at a meeting duly called for that purpose, may conduct and carry on its business under the provisions hereof, exclusively, in the same way and manner and to the same extent in all respects as if said corporation had been originally organized under a charter containing like provisions; and the capital stock of said corporation, the shareholders therein, and the number of shares by them respectively held, shall be the same as now existing in said joint stock corporation, inclusive of original and increased capital stock thereof.

Section 2. Said Stanley Works shall be and remain a body politic and corporate by the name of The Stanley Works, located at said New Britain, and shall have and enjoy its said corporate franchise, and all the rights and privileges herein granted, for the purpose of manufacturing, buying, and selling, and dealing in all kinds of metal and hardware, and all articles composed in whole or in part of metal, wood, or other substance, which it shall deem expedient, and to do such other things as are incident to the prosecution of said business, and to exercise such mercantile powers as may be convenient and necessary for the successful prosecution of said business, and in and by said corporate name said corporation shall be and is hereby vested with the title to all the goods, chattels, lands, buildings, machinery, property, choses in action, trademarks, and effects of whatever nature heretofore acquired by and now belonging to said corporation, and is hereby authorized and empowered in addition thereto to purchase, take, hold, occupy, and enjoy to itself and assigns any such property, real, personal, or of whatever other nature, including letters patent, as will enable it the better to carry on said business to advantage, and the same may manage, control, convey, lease, sell, and dispose of at pleasure, and may take and execute leases of real estate.

Section 3. The stock of said corporation shall consist of 210,000,000 shares, divided into 200,000,000 common shares of the par value of $2.50 per share and 10,000,000 preferred shares, without par value. The Board of Directors is authorized to fix and determine the terms, limitations and relative rights and preferences of the preferred shares including, without limitation, any voting rights thereof, to divide the preferred shares into and to issue the same in series, to fix and determine the variations among series to the extent permitted by law, and, within the limits from time to time of the authorized but unissued common shares to provide that preferred shares, or any series thereof, may be convertible into the same or a different number of common shares.

Shareholders, whether of common or preferred shares, shall have no pre-emptive rights with respect to any of the common or preferred shares. Upon conversion of preferred shares into common shares, the preferred shares surrendered in such conversion shall be retired unless the Board of Directors takes specific action that the same be canceled.

Without limiting the powers now possessed by it, said corporation is vested with all the privileges and powers enumerated in the general corporation laws of this state as now existing or hereafter amended. Its officers and directors shall have the powers given to directors and officers of corporations in said general corporation laws. Said corporation is authorized to add to and otherwise amend its corporate powers and purposes in the extent and manner permitted to corporations organized under said general corporation laws, provided that the subject matter of such changes could have been lawfully inserted in the original certificate of incorporation of a corporation organized under said general corporation laws and provided further that certificates of such changes be filed with the secretary of the state as therein provided.

Section 4. The stock, property and affairs of said corporation shall be managed by a Board consisting of not less than nine nor more then eighteen directors, the exact number to be determined by the Board of Directors from time to time. The Board of 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 then total number of directors constituting the entire Board permits. At the 1983 Annual Meeting of Shareholders, or any special meeting in lieu thereof, four Class I, five Class II and five Class III directors shall be elected for initial terms expiring at the next succeeding annual meeting, the second succeeding annual meeting and the third succeeding annual meeting, respectively, and when their respective successors are elected and qualified. At each annual meeting of shareholders after 1983, the directors chosen to succeed those in the class whose terms expire shall be elected by shareholders for terms expiring at the third succeeding annual meeting after election, or for such lesser term as may be appropriate in the particular case in order to assure that the number of directors in each class shall remain constant, and when their respective successors are elected and qualified. The directors may increase the number of directorships by the concurring vote of directors holding a majority of the directorships. Any vacancy on the Board that is created by an increase in the number of directors may be filled for the unexpired term by the concurring vote of directors holding a majority of the directorships, which number of directorships shall be the number prior to the vote on the increase. Any other vacancy which occurs on the Board may be filled for the unexpired term by the concurring vote of a majority of the remaining directors in office, though such remaining directors are less than a quorum, and though such majority is less than a quorum, or by action of the sole remaining director in office. Newly created directorships or any decrease in directorships resulting from increases or decreases in the 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 directorships shall remove or shorten the term of any director in office.

Any director may be removed from office but only for cause by the affirmative vote of the holders of at least a majority of the voting power of the shares entitled to vote for the election of directors, considered for this purpose as one class.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of preferred stock issued by said corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by any terms of this Certificate of Incorporation of said corporation applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Section 4 unless expressly provided by such terms.

In the event of a vacancy among the directors so elected by the holders of preferred stock, the remaining preferred directors may fill the vacancy for the unexpired term.

September 15, 1998

Section 5. The existing by-laws of said corporation shall continue in force until the same are altered or repealed by the Board of Directors or a vote of the shareholders; the shareholders, at any legal meeting, shall have power to alter or repeal said by-laws, and to make or establish such other by-laws, rules and regulations, not inconsistent with the laws of this state or with Section 10 of this Certificate of Incorporation, as they may deem expedient for the management of the affairs of the corporation, and may alter or repeal the same; and said directors may, as often as the interests of the shareholders require and the affairs of said corporation will permit, declare a dividend of profits on each share, which shall be paid by the treasurer of said corporation.

Section 6: (a) The affirmative vote of the holders of not less than 80% of the outstanding shares of capital stock of the corporation entitled to vote shall be required for the approval or authorization of any "Business Combination" (as hereinafter defined) involving an "Interested Shareholder" (as hereinafter defined); provided, however, that the 80% voting requirement shall not be applicable if:

(1) The "Continuing Directors" (as hereinafter defined) of the corporation by a two-thirds vote have expressly approved such Business Combination either in advance of or subsequent to such Interested Shareholder's having become an Interested Shareholder; or

(2) The following conditions are satisfied:

(A) The aggregate amount of the cash and the "Fair Market Value" (as hereinafter defined) of the property, securities or "Other Consideration" (as hereinafter defined) to be received per share by holders of capital stock of the corporation in the Business Combination, other than the Interested Shareholder involved in the Business Combination, is not less than the "Highest Per Share Price" or the "Highest Equivalent Price" (as hereinafter defined) paid by the Interested Shareholder in acquiring any of its holdings of the corporation's capital stock; and

(B) A proxy statement complying with the requirements of the Securities Exchange Act of 1934, as amended, shall have been mailed to all shareholders of the corporation for the purpose of soliciting shareholder approval of the Business Combination. The proxy statement shall contain at the front thereof, in a prominent place, the position of the Continuing Directors as to the advisability (or inadvisability) of the Business Combination and, if deemed advisable by a majority of the Continuing Directors, the opinion of an investment banking firm selected by the Continuing Directors as to the fairness of the terms of the Business Combination, from the point of view of the holders of outstanding shares of capital stock of the corporation other than any Interested Shareholder.

Such 80% vote shall be required notwithstanding the fact that no vote may be required or that a lesser percentage may be specified by law or in any agreement with any national securities exchange or otherwise.

(b) For purposes of this Section 6:

(1) The term "Business Combination" shall mean

(A) any merger, consolidation or share exchange of the corporation or a subsidiary of the corporation with or into an Interested Shareholder, in each case without regard to which entity is the surviving entity;

(B) any sale, lease, exchange, transfer or other disposition, including without limitation a mortgage or any other security device, of all or any "Substantial Part" (as hereinafter defined) of the assets of the corporation (including without limitation any voting securities of a subsidiary of the corporation) or a subsidiary of the corporation to an Interested Shareholder (in one transaction or a series of transactions);

(C) any sale, lease, exchange, transfer or other disposition, including without limitation a mortgage or any other security device, of all or any Substantial Part of the assets of an Interested Shareholder to the corporation or a subsidiary of the corporation;

(D) the issuance or transfer of any securities of the corporation or a subsidiary of the corporation by the corporation or any of its subsidiaries to an Interested Shareholder (other than an issuance or transfer of securities which is effected on a pro rata basis to all shareholders of the corporation);

(E) any recapitalization that would have the effect of increasing the voting power of an Interested Shareholder;

(F) the issuance or transfer by an Interested Shareholder of any securities of such Interested Shareholder to the corporation or a subsidiary of the corporation (other than an issuance or transfer of securities which is effected on a pro rata basis to all shareholders of the Interested Shareholder);

(G) the adoption of any plan or proposal for the liquidation or dissolution of the corporation proposed by or on behalf of an Interested Shareholder; or

(H) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Combination.

(2) The term "Interested Shareholder" shall mean and include any individual, partnership, corporation or other person or entity which, as of the record date for the determination of shareholders entitled to notice of and to vote on any Business Combination, or immediately prior to the consummation of such transaction, together with its "Affiliates" and "Associates" (as defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect at the date of the adoption of this Article by the shareholders of the corporation [collectively, and as so in effect, the "Exchange Act"]), are "Beneficial Owners" (as defined in Rule 13d-3 of the Exchange Act) in the aggregate of 10% or more of the outstanding shares of any class of capital stock of the corporation, and any Affiliate or Associate of any such individual, corporation, partnership or other person or entity. Notwithstanding any provision of Rule 13d-3 to the contrary, an entity shall be deemed to be the Beneficial Owner of any share of capital stock of the corporation that such entity has the right to acquire at any time pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise.

(3) The term "Substantial Part" shall mean more than 20% of the fair market value, as determined by two-thirds of the Continuing Directors, of the total consolidated assets of the corporation and its subsidiaries taken as a whole as of the end of its most recent fiscal year ended prior to the time the determination is being made.

(4) The term "Other Consideration" shall include, without limitation, Common Stock or other capital stock of the corporation retained by shareholders of the corporation other than Interested Shareholders or parties to such Business Combination in the event of a Business Combination in which the corporation is the surviving corporation.

(5) The term "Continuing Director" shall mean a director who is unaffiliated with any Interested Shareholder and either (A) was a member of the Board of Directors of the corporation immediately prior to the time that the Interested Shareholder involved in a Business Combination became an Interested Shareholder or (B) was designated (before his or her initial election or appointment as director) as a Continuing Director by a majority of the then Continuing Directors.

(6) The terms "Highest Per Share Price" and "Highest Equivalent Price" as used in this Section 6 shall mean the following: if there is only one class of capital stock of the corporation issued and outstanding, the Highest Per Share Price shall mean the highest price that can be determined to have been paid at any time by the Interested Shareholder for any share or shares of that class of capital stock. If there is more than one class of capital stock of the corporation issued and outstanding, the Highest Equivalent Price shall mean with respect to each class and series of capital stock of the corporation, the amount determined by a majority of the Continuing Directors, on whatever basis they believe is appropriate, to be the highest per share price equivalent of the Highest Per Share Price that can be determined to have been paid at any time by the Interested Shareholder for any share or shares of any class of securities of capital stock of the corporation. In determining the Highest Per Share Price and Highest Equivalent Price, all purchases by the Interested Shareholder shall be taken into account regardless of whether the shares were purchased before or after the Interested Shareholder became an Interested Shareholder. Also, the Highest Per Share Price and the Highest Equivalent Price shall include any brokerage commissions, transfer taxes, soliciting dealers' fees and other expenses paid by the Interested Shareholder with respect to the shares of capital stock of the corporation acquired by the Interested Shareholder. In the case of any Business Combination with an Interested Shareholder the Continuing Directors shall determine the Highest Per Share Price and

the Highest Equivalent Price for each class and series of capital stock of the corporation.

(7) The term "Fair Market Value" shall mean (A) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question 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 stock as determined by a two-thirds vote of the Continuing Directors in good faith; and (B) in the case of property other than stock or cash, the fair market value of such property on the date in question as determined by a two-thirds vote of the Continuing Directors in good faith.

(c) The determination of the Continuing Directors as to Fair Market Value, Highest Per Share Price, Highest Equivalent Price, and the existence of an Interested Shareholder or a Business Combination shall be conclusive and binding.

(d) Nothing contained in this Section 6 shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

(e) The fact that any Business Combination complies with the provisions of paragraph (a)(2) of this Section 6 shall not be construed to impose any fiduciary duty, obligation or responsibility on the Board of Directors, or any member thereof, to approve such Business Combination or recommend its adoption or approval to the shareholders of the corporation, nor shall such compliance limit, prohibit or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such Business Combination.

(f) Notwithstanding any other provisions of this Certificate of Incorporation or the By-Laws of the corporation, the affirmative vote of the holders of not less than 80% of the outstanding shares of capital stock shall be required to amend, alter, change, or repeal, or adopt any provisions inconsistent with, this Section 6.

Section 7. Said corporation by vote of its directors may, from time to time, acquire and hold its own stock for distribution among its employees, and may so distribute and sell such stock at not less than par among such of its employees, not including any director, as in the judgment of its directors will best promote the interests of said company or the welfare of its employees, in such manner and upon such terms as said directors may by vote determine, provided said corporation shall not at any time acquire or hold more than ten percentum of its outstanding capital stock for such purposes, and provided no such stock shall be acquired when said company is insolvent or so as to render it immediately insolvent. Said corporation shall not vote upon shares of its own stock so acquired or held.

Section 8. Said company is hereby authorized to transmit power, for use in its manufacturing business only, from the town of Kent to its manufacturing plant in New Britain by means of poles, wires, fixtures, or otherwise, over land or private rights of way which it may purchase from the owners thereof or persons interested therein, and in so doing may cross over highways with its wires, without running along said highways, however; said rights to cross such highways to be exercised in conformity with the provisions of sections 3903 to 3910, both inclusive, of the general statutes.

Section 9. (The act validating certain conveyances from the American Tube and Stamping Company to The Stanley Works approved April 12, 1927 and an act validating a conveyance from The Stanley Works to Northeastern Steel Corporation approved April 20, 1955 are both omitted because no longer significant as a part of the Certificate of Incorporation of The Stanley Works.)

Section 10. Except to the extent prohibited by law, the Board of Directors shall have the right (which, to the extent exercised, shall be exclusive) to establish the rights, powers, duties, rules and procedures that from time to time shall govern the Board of Directors and each of its members, including without limitation the vote required for any action by the Board of Directors, and that from time to time shall affect the directors' power to manage the business and affairs of the corporation; and no bylaw shall be adopted by shareholders which shall impair or impede the implementation of the foregoing.

Section 11. A director of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages in excess of the compensation received by the director for serving the corporation during the year of the violation to the extent such exemption from liability is permitted under the Connecticut Stock Corporations Act as the same exists. If the Connecticut Stock Corporations Act is amended hereafter to authorize corporate action further limiting or eliminating the personal liability of directors for monetary damages, then the liability of a director of the corporation shall be limited or eliminated to the fullest extent permitted by the amended Connecticut Stock Corporations Act. Any repeal or modification of this Section or adoption of an inconsistent provision shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

THE STANLEY WORKS
5.75% Notes Due March 1, 2004

CERTIFICATE OF DESIGNATED OFFICERS
ESTABLISHING TERMS OF A SERIES OF
SECURITIES UNDER OPEN-END INDENTURE

WHEREAS, The Stanley Works (the "Company") has entered into an Indenture, dated as of April 1, 1986 (the "Original Indenture"), with State Street Bank and Trust Company, as successor trustee (the "Trustee"), as amended by the First Supplemental Indenture, dated as of June 15, 1992 (the "Supplemental Indenture," and, together with the Original Indenture, the "Indenture"), providing for the issuance from time to time of unsecured debentures, notes or other evidences of indebtedness of the Company ("Securities") to be issued in one or more series under the Indenture; and

WHEREAS, the Company desires to create a series of Securities under the Indenture and desires to make provision for the terms of such series; and

WHEREAS, by resolutions adopted by the Board of Directors of the Company on January 28, 1999, the undersigned were authorized to determine the designation and terms of series of Securities; and

WHEREAS, capitalized terms used herein and not otherwise defined are used with the same meanings ascribed to such terms in the Indenture;

We, Theresa F. Yerkes, Vice President, Controller and Acting Chief Financial Officer of the Company and Stephen S. Weddle, Vice President, Secretary and General Counsel of the Company, HEREBY CERTIFY THAT there is hereby approved and established a series of Securities under the Indenture whose terms shall be as follows:

1.The Securities of such series shall be known and designated as the 5.75% Notes Due March 1, 2004 of the Company.

2. The aggregate principal amount of Securities of such series that may be authenticated and delivered under the Indenture is limited to $120,000,000, except for Securities of such series authenticated and delivered

upon registration of transfer of, or in exchange for, or in lieu of, other Securities of such series pursuant to Sections 304, 305, 306, 906 or 1107 of the Indenture.

3. The Stated Maturity of the principal of the Securities of such series shall be March 1, 2004.

4. The Securities of such series shall bear interest at the rate of 5.75% per annum, from March 1, 1999 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable semi-annually on March 1, and September 1, commencing September 1, 1999, until the principal thereof is paid or made available for payment. Each such March 1 and September 1 shall be an "Interest Payment Date" for such series. The February 15 or August 15 (whether or not a Business Day), as the case may be, next preceding an Interest Payment Date shall be the "Regular Record Date" for the interest payable on such Interest Payment Date.

5. The principal of and interest on the Securities of such series shall be payable at the office or agency of the Company maintained for such purpose in the Borough of Manhattan, The City of New York, and at any other office or agency maintained by the Company for such purpose, provided, however, that at the option of the Company payment of interest may be made by wire transfer (in the case of the Depository (as hereinafter defined)) or by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register.

6. The Securities of such series may not be redeemed prior to the Stated Maturity thereof.

7. The Securities will initially be issued in book-entry form, represented by a certificate (the "Global Security") deposited with, or on behalf of, The Depository Trust Company (the "Depository") and registered in the name of the Depository's nominee, Cede & Co. Ownership of beneficial interests in the Global Security will be shown on, and transfers thereof will be effected only through, records maintained by the Depository (with respect to participants' interests) and its participants and indirect participants (with respect to beneficial owners' interests). The Securities will be issued in fully registered, certificated form only under certain limited circumstances.

8. The Securities will be issued and sold to the Underwriters named in the Terms Agreement dated February 24, 1999, among the Company, Goldman, Sachs & Co. and Salomon Smith Barney Inc., at a purchase price of 99.961% of the principal amount of the Notes less the underwriting commission of 0.600% thereof.

IN WITNESS WHEREOF, we have hereunto signed our names this 24th day of February, 1999.

Theresa F. Yerkes

Theresa F. Yerkes
Vice President, Controller and Acting
Chief Financial Officer

Stephen S. Weddle

Stephen S. Weddle
Vice President, General Counsel and
Secretary

AGREEMENT

BETWEEN:
- --------

STANLEY WORKS, INC., a company existing under the laws of Connecticut, having its registered office at 1000 Stanley Drive, New Britain, Connecticut, duly represented by Mr M.J.Mathieu, hereafter referred to as: 'STANLEY';

AND

STEF G.H. KRANENDIJK, living at U1. Niecala 8, 05-510 Konstancin-Jeziorna, Poland, hereinafter to be referred to as 'MR. KRANENDIJK';

WITNESSED
- ---------

WHEREAS, STANLEY is engaged in the tools and hardware industry;

WHEREAS, STANLEY Works BVBA and Mr Kranendijk have entered into a Director's Agreement and a Non-competition Agreement;

WHEREAS, STANLEY wishes to confirm additional agreements with Mr Kranendijk in respect of Stock Options as set forth herein:

THEREFORE, PARTIES AGREE AS FOLLOWS:

ARTICLE 1
STOCK OPTIONS

1. Stock Option Awards are governed by the terms of the 1990 Stock Option Plan and the 1997 Long Term Incentive Plan of STANLEY and have a maximum exercise period of ten years after grant.

2. STANLEY agrees to make the two following stock option awards to Mr Kranendijk which will be priced at market value at the close of NYSE at the first Board meeting of STANLEY following the incorporation of Stanley Works BVBA and the appointment of Mr Kranendijk as a Director thereof:
   - 65,000 options which will vest 6 months after grant and be exercisable from one year after grant;
   - 125,000 options which will vest 5 years from grant and be exercisable from that time.

3. STANLEY guarantees that nothing (especially article 2.01 and article 2.03 (c)) in the 1990 Stock Option Plan and the 1997 Long Term Incentive Plan will be construed to jeopardize the option award herein and that no further conditions will be imposed on the options or the stock.

4. In October each year the Board of Directors of STANLEY awards annual options which vest after 6 (six) months and which are exercisable one year after grant for a period of ten years after grant. Mr Kranendijk's Annual Stock Award will be at least 25,000 options. With respect to 1998 the full annual stock option award of 25,000 options will be granted to Mr Kranendijk notwithstanding the fact that his director's mandate with Stanley Europe BVBA will commence during the year.

5. All options which are vested will become exercisable at the moment Mr Kranendijk's director's mandate with Stanley Europe BVBA will come to an end and will be exercisable until two months after such event. With respect to the 65,000 options meant in Article 1.2 the following will apply: the options will be deemed to be vested in and upon the event the Company terminates the mandate of the Director in the first 6 months. With respect to the 65,000 options, vested options will be exercisable until 2 months after the moment the options would have been exercisable if the director's mandate had not been terminated.

ARTICLE 3
APPLICABLE LAW-COURTS

1. This Agreement is subject to Belgian law.

2. In case of a dispute, the Brussels courts will have exclusive jurisdiction.

ARTICLE 4
LANGUAGE

Mr Kranendijk acknowledges that he fully understands the contents of this Agreement and the language used therein.

Signed in three original copies on 29 June 1998, at Zaventem. Each party acknowledges receipt of one duly signed original copy.

S.G.H. Kranendijk	M.J. Mathieu by L. Tyler
- -------------------------	---
Mr S. Kranendijk	Mr M.J.Mathieu, duly represented by
proxy by Mrs L. Tyler	

November 16, 1998

John A. Cosentino, Jr.
72 East Weatogue Street
Simsbury, CT 06070

RE: AGREEMENT AND GENERAL RELEASE

Dear John:

The Stanley Works and its subsidiaries and their respective employees, officers, directors and agents (collectively, "Stanley"), and you, agree that:

1. Your last day of employment with Stanley was October 14, 1998 ("last day worked"). The period from September 17, 1998, through October 14, 1998 was considered a period of paid vacation to cover all unused vacation owed to you for 1998.

2. Stanley agrees to pay and/or provide you with the following, provided Stanley receives the letters from you in the form attached hereto as Exhibits A and B.

a. Stanley will pay you the monthly amount of Twenty-Six Thousand, Two Hundred Dollars ($26,200), less lawful deductions, from October 15, 1998, through July 14, 1999, and the monthly amount of Twenty-Five Thousand Dollars ($25,000), less lawful deductions, from July 15,1999 through January 14, 2000, on the regular payday applicable to the payroll beginning in October, 1998, and ending in January, 2000. These payments, plus the vacation paid to you from September 17, 1998 to October 14, 1998, will total $410,800, less all lawful deductions, and include all entitlements you may have under any Stanley policy, including those covering vacation and or severance pay.

b. You remained a participant in the pension and 401(k) plans in which you are currently participating through your last day worked.

c. You will continue to receive your current level of life and accidental death and dismemberment insurance through the end of the month in which the payments outlined in section 2(a) are made, provided you continue to make the required contributions.

d. You will continue to receive medical and dental coverage through the end of the month in which the payments outlined in section 2(a) are made, provided you continue to make the required contributions. You will then have the same COBRA rights commonly provided terminating employees

e. Your short term and long term disability coverage ceased on your last day worked.

f. You will remain a participant in the Executive Council Life Insurance Plan through the last day of the current plan year, and will then have the same rights under the Plan commonly provided terminating employees

g. You remained a participant in the Management Incentive Compensation Plan ("MICP") through your last day worked. You will receive a payment of One Hundred Fifty Thousand dollars ($150,000.00) under the 1998 MICP, payable in February, 1999.

h. You remained a participant in the Executive Financial Planning Program through your last day worked.

i. You remained a participant in the Stock Option Plan ("SOP") through your last day worked. The original SOP document, which included as part thereof, your September 22, 1997, offer letter, has the effect of allowing you to take until October 14, 1999, to exercise your NQSO shares granted in 1997, under the terms of the Plan.

j. You remained a participant in the Stanley Employee Stock Purchase Plan through your last day worked. You may continue to sell any stock in your employee account through the Plan's transfer agent, even after your last day worked.

k. Your car allowance payments stopped effective your last day worked.

l. You remained a participant in the Long Term Performance Award Plan ("LTPAP") through your last day worked. Under the terms of the LTSAP, you are not eligible for any payments that may become due under such Plan.

m. Stanley will not contest your receipt of unemployment compensation benefits.

3. You understand and agree that you would not receive all of the money and benefits specified in sections 2(a) through (m), excluding section 2(g), above except for your execution of this Agreement and your fulfillment of the promises contained herein.

4. You understand that you may revoke this Agreement for a period of seven business days following the day you execute it and that this Agreement will not become effective or enforceable until such revocation period has expired. Any revocation within this period must be submitted, in writing, to the Corporate Director, Employee Relations, The Stanley Works, 76 Batterson Park Road, Farmington, CT 06032, and state, "I hereby revoke my acceptance of our Agreement." Such revocation must be personally delivered, or mailed by certified mail, within seven business days of execution of this Agreement to the Corporate Director, Employee Relations.

5. Except with respect to a claim for any compensation or benefits under the plans and programs in which you participate by virtue of your employment, you hereby release and discharge Stanley of and from any and all debts, obligations, claims, demands, judgments or causes of action of any kind whatsoever, known or unknown, in tort, contract, by statute or on any other basis, for equitable relief, compensatory, punitive or other damages, expenses (including attorneys' fees), reimbursements of costs of any kind, including but not limited to, any and all claims, demands, rights and/or causes of action, including those which might arise out of allegations relating to a claimed breach of an alleged oral or written employment contract, or relating to purported employment discrimination or civil rights violations, such as, but not limited to, those arising under Title VII of the Civil Rights Act of 1964 (42 U.S.C. ss.ss.2000e et seq.), the Civil Rights Acts of 1866 and 1871 (42 U.S.C. ss.ss.1981 and 1983), Executive Order 11246, as amended, the Age Discrimination in Employment Act (29 U.S.C. ss.621 et seq.), the Employee Retirement Income Security Act of 1974, the Equal Pay Act of 1963 (29 U.S.C. ss.206(d)(1)), the Civil Rights Act of 1991, the Americans with Disabilities Act, all statutory provisions of the Connecticut General Statutes over which the Connecticut Commission on Human Rights and Opportunities is authorized to exercise jurisdiction, or any other applicable federal, state, or local employment discrimination statute or ordinance, which you, your executors, administrators, successors, and assigns might have or assert against Stanley (a) by reason of any event which occurred on or before the time of execution of this Agreement, in connection your employment by Stanley, or the termination of such employment, and all circumstances related thereto, or (b) by reason of any matter, cause or thing whatsoever which may have occurred prior to the time of execution of this Agreement. Nothing in this Agreement prevents you from enforcing the terms and conditions of this Agreement.

6. You waive your right to file any charge or complaint, except as such waiver is prohibited by law, and agree that you will not accept any relief or recovery from any charge or complaint against Stanley before any federal, state, or local administrative agency. You further waive all rights to file any action before any federal, state, or local court against Stanley. You confirm that no charge, complaint, or action exists in any forum or form. Except as prohibited by law, in the event that any such claim is filed, it shall be dismissed with prejudice upon presentation hereof and you shall reimburse Stanley for the costs, including attorney's fees, of defending any such action.

7. You agree not only to release Stanley from any and all claims as stated above which you could make on your own behalf, but also those which may be made by any other person or organization on your behalf. You specifically waive any right to become, and promise not to become, a member of any class in a case in which a claim against Stanley is made involving any events up to and including the date of this Agreement, except where such waiver is prohibited by law. You further agree not to in any way voluntarily assist or cooperate with any individual or entity in commencing or prosecuting any action or proceeding against Stanley including, but not limited to, any charges, complaints, or administrative agency claims, except as prohibited by law.

8. With respect to any secret or confidential information obtained by you during your employment at Stanley, you will not disclose or use for any purpose any such secret or confidential information. For purposes hereof, secret or confidential information includes any process, technique, formula, recipe, drawing, apparatus, method for or result of cost calculation, result of any investigation or experiment made by or on behalf of Stanley, and any sales, production or other competitive information, acquired by you during the course of your employment by Stanley and all other information that Stanley itself does not disclose to the public.

You further agree that any work, design, discovery, invention or improvement conceived, made, developed or received by you during the period of your employment with Stanley, which relates to the actual or anticipated (as of the date hereof) business, operations or research of Stanley, including but not limited to any process, art, machine, manufacture, materials or composition of matter, which could be manufacturing or used by Stanley, whether patentable or not, is the sole property of Stanley. The terms invention and improvement as used herein, in addition to their customary meaning, shall mean creative concepts and ideas relating to advertising, marketing, promotional and sales activities.

You further state that you have assigned or hereby do assign to Stanley or its designee all right, title and interest in any or to any idea, work, design, discovery, invention or improvement made or created during your employment at Stanley and to any application for letters patent or for trademark registration made thereon, and to any common law or statutory copyright therein, and that you will cooperate with Stanley in order to enable it to secure any patent, trademark, copyright, or other property right therefor in the United States or any foreign country, and any division, renewal, continuation or continuation-in-part thereof, or for any reissue of any patent issued thereon.

You also agree that Stanley has all rights to, possession of, and all title in and to, all electronic files, papers, documents and drawings, including copies thereof, which you may have originated or which came into your possession during your employment with Stanley and which related to the business of Stanley, regardless of whether such electronic files, papers, documents and drawings are kept at your office, at your home or somewhere else, without retaining any copies thereof, except for any personnel, benefit or compensation information of a personal nature and any general business reference materials or documents which do not contain any confidential or proprietary information.

8a. You agree not to work for -- or provide any consulting services to - -- the following companies that compete with The Stanley Works until at least January 14, 2000; Danaher, Snap-On, Black and Decker, Cooper Tool, Illinois Tool Works, Porter Cable, SENCO.

8b. You also agree that you will not personally solicit or personally and initially identify to any company or executive recruiting organization with which you have a relationship, any employee of Stanley for any employment opportunities through January 14, 2000. You may, however, at the request of any Stanley employee provide employment references and or recommendations.

9. You agree that you will not make any statements that are intended to have and actually do have a material unfavorable effect on Stanley or any of its officers, directors, agents or employees.

10. You agree not to disclose any information regarding the substance of this Agreement. Notwithstanding this agreement of non-disclosure, you may disclose the substance of this Agreement to members of your immediate family and to any attorney with whom you choose to consult concerning the execution of this Agreement, and to any tax advisor, financial planning advisor or potential employer to whom the facts of this Agreement may require disclosure; provided that you agree that any such person to whom disclosure is made will not disclose any information regarding such disclosure to any third party.

An initial violation of this section will subject you to liquidated damages of $5,000. For any subsequent violation, you will be subject to damages in an amount which Stanley actually proves.

11. All disputes and controversies of every kind and nature between the parties to this Agreement arising out of or in connection with this Agreement as to the existence, construction, validity, interpretation or meaning, performance, non-performance, enforcement, operation, breach, continuance, or termination of this Agreement shall be submitted to and determined by arbitration pursuant to the procedure set forth in this Agreement.

Either party may demand such arbitration by notice ("notice procedure": if to Stanley, sent to the attention of the Corporate Director, Employee Relations, by fax (860-409-1287) and confirmed by UPS overnight express or a comparable service sent to Corporate Director, Employee Relations, 76 Batterson Park Road, Farmington, CT 06032; and if to you, sent to you at your address set forth at the beginning of this Agreement by UPS overnight express or a comparable service) in writing sent within 90 days after the time the demanding party becomes aware, or should have become aware, that a controversy exists. Within 30 days after such demand has been sent, the demanding party will request in writing (with a copy to the other party sent in accordance with the "notice procedure") the Arbitration Committee of the American Arbitration Association to name an arbitrator to hear the dispute in the New Britain, CT area.

An award rendered by the arbitrator appointed under this section 11 shall be final and binding on all parties to the proceeding, and judgment on such award may be entered by either party in the highest court, state or federal, having jurisdiction. Nothing contained in this Agreement shall be deemed to give the arbitrator any authority, power, or right to alter, change, amend, modify, add to, or subtract from any of the provisions of this Agreement.

The arbitration costs and expenses (including legal fees) of each party will be borne by the losing party.

12. You will not apply in the future for any employment with Stanley.

13. This Agreement is made in the State of Connecticut and shall be interpreted under the laws of such state. If any portion of this Agreement is declared illegal or unenforceable and cannot be modified to be enforceable, including the general release language, such portion shall immediately become void, leaving the remainder of this Agreement in full force and effect. However, if in any proceeding it is asserted by you or anyone else on your behalf and with your approval that any portion of the general release language of paragraphs 5, 6, or 7 is unenforceable and any portion of such language is, in fact, ruled to be unenforceable in such proceeding for any reason, you will return the consideration paid hereunder to Stanley.

14. You agree that neither this Agreement nor the furnishing of the consideration for this Release will be deemed or construed at anytime for any purpose as an admission by Stanley of any liability or unlawful conduct of any kind.

15. This Agreement may not be modified, altered or changed except by you and Stanley in a writing that specifically references this Agreement. This Agreement sets forth the entire agreement between you and Stanley, and fully supersedes any prior agreements or understandings between us.

THE PARTIES HAVE READ AND FULLY CONSIDERED THIS AGREEMENT AND ARE MUTUALLY DESIROUS OF ENTERING TO THIS AGREEMENT. THE TERMS OF THIS AGREEMENT ARE THE PRODUCT OF MUTUAL NEGOTIATION AND COMPROMISE BETWEEN STANLEY AND YOU; YOU UNDERSTAND THAT THIS AGREEMENT SETTLES, BARS, AND WAIVES ANY AND ALL CLAIMS THAT YOU HAVE OR COULD POSSIBLY HAVE AGAINST STANLEY. YOU HAVE BEEN AFFORDED AT LEAST 21 DAYS TO CONSIDER THIS AGREEMENT AND HAVE BEEN ADVISED TO CONSULT WITH AN ATTORNEY. HAVING SUBSEQUENTLY ELECTED TO EXECUTE THIS AGREEMENT, TO FULFILL THE PROMISES SET FORTH HEREIN, AND TO RECEIVE THEREBY THE SUMS AND BENEFITS SET FORTH IN PARAGRAPHS 2(A) THROUGH 2(M) ABOVE, YOU FREELY AND KNOWINGLY, AND AFTER DUE CONSIDERATION, ENTER INTO THIS AGREEMENT INTENDING TO WAIVE, SETTLE AND RELEASE ALL CLAIMS YOU HAVE OR MIGHT HAVE AGAINST STANLEY.

You and Stanley now voluntarily and knowingly execute this Agreement.

/s/ John A. Cosentino

John A Cosentino

Signed and sworn before me this 20th day of January, 1999.

/s/ Daniela L. Galoforo

(Notary Public/Commissioner of the Superior Court)

THE STANLEY WORKS:

By: /s/ Mark Mathieu

Mark Mathieu
Vice President, Human Resources

Signed and sworn before me this 25th day of January, 1999.

/s/ Jennie C. Everson

(Notary Public/Commissioner of the Superior Court)

EXHIBIT A

1/20/99

Date

Mr. Mark Mathieu
Vice President, Human Resources
The Stanley Works
1000 Stanley Drive
New Britain, CT 06053

RE: Agreement

Dear Mark:

On 1/20/99 1999, I executed an Agreement and General Release (the "Agreement") between The Stanley Works and me. Stanley advised me, in writing, to consult with an attorney of my choosing prior to executing the Agreement.

More than 7 days have elapsed since I executed the Agreement. I have never revoked my acceptance or execution of the Agreement and hereby reaffirm my acceptance of the Agreement. Therefore, in accordance with the terms of the Agreement, I hereby request payment of the benefits described in paragraphs 2(a) through 2(m) of the Agreement.

Very truly yours,

/s/ John A. Cosentino

John A. Cosentino

EXHIBIT B

1/20/99

Date

Mr. Mark Mathieu
Vice President, Human Resources
The Stanley Works
1000 Stanley Drive
New Britain, CT 06053

RE: Agreement

Dear Mark:

I hereby resign the office I hold with Stanley Chiro International, Ltd., effective September 17, 1998.

Further, effective September 17, 1998, I resign all offices and directorships that I hold with The Stanley Works, and any and all of its subsidiaries and divisions.

Very truly yours,

/s/ John A. Cosentino

John A. Cosentino

Exhibit 12

THE STANLEY WORKS AND SUBSIDIARIES
COMPUTATION OF EARNINGS TO FIXED CHARGES
(in Millions of Dollars)

	Fiscal Year Ended				
	January 2 1999	January 3 1998	December 28 1996	December 30 1995	December 31 1994
Earnings (loss) before income taxes and cumulative adjustment for accounting change	$215.4	($18.6)	$174.2	$112.8	$201.8
Add:					
Portion of rents representative of interest factor	$15.0	$11.6	$12.2	$13.4	$12.7
Interest expense	30.5	24.2	27.6	35.2	33.1
Amortization of expense on long-term debt	0.3	0.2	0.2	0.3	0.2
Amortization of capitalized interest	0.2	0.3	0.3	0.3	0.4
Income as adjusted	$261.4	$17.7	$214.5	$162.0	$248.2
Fixed charges:					
Interest expense	$30.5	$24.2	$27.6	$35.2	$33.1
Amortization of expense on long-term debt	0.3	0.2	0.2	0.3	0.2
Capitalized interest	-	-	0.2	0.1	-
Portion of rents representative of interest factor	15.0	11.6	12.2	13.4	12.7
Fixed charges	$45.8	$36.0	$40.2	$49.0	$46.0
Ratio of earnings to fixed charges	5.71	0.49	5.34	3.31	5.40

Summary of Selected Financial Information

(MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	1998(A)	1997(B)	1996(C)	1995(D)
CONTINUING OPERATIONS (E)				
Net sales	$ 2,729	$ 2,670	$ 2,671	$ 2,624
Earnings (loss)	138	(42)	97	59
Earnings (loss) per share				
Basic	$ 1.54	$ (.47)	$ 1.09	$ .66
Diluted	$ 1.53	$ (.47)	$ 1.08	$ .66
Percent of Net Sales:				
Cost of sales	65.7%	66.8%	67.2%	68.2%
Selling, general and administrative	25.1%	23.5%	22.8%	22.5%
Interest-net	.8%	.6%	.8%	1.2%
Other-net	.5%	.8%	.8%	.5%
Earnings (loss) before income taxes	7.9%	(.7%)	6.5%	4.3%
Earnings (loss)	5.1%	(1.6%)	3.6%	2.3%
Other Key Information				
Total assets	$ 1,933	$ 1,759	$ 1,660	$ 1,670
Long-term debt	345	284	343	391
Shareowners' equity	$ 669	$ 608	$ 780	$ 735
Ratios:				
Current ratio	1.5	1.6	2.4	2.4
Total debt to total capital	45.8%	40.5%	31.7%	39.6%
Income tax rate	36.0%	(125.4%)	44.4%	47.6%
Return on average equity (E),(F)	21.6%	(6.0)%	12.8%	8.0%
Common Stock Data:				
Dividends per share	$ .83	$ .77	$ .73	$ .71
Equity per share at year-end	$ 7.54	$ 6.85	$ 8.79	$ 8.28
Market price-high	57 1/4	47 3/8	32 13/16	26 11/16
-low	23 1/2	28	23 5/8	17 13/16
Average shares outstanding (in thousands)				
Basic	89,408	89,470	89,152	89,043
Diluted	90,193	89,470	89,804	89,839
Other Information:				
Earnings (loss) from continuing operations	$ 138	$ (42)	$ 97	$ 59
Cumulative effect of accounting change	-	-	-	-
Net earnings (loss)	$ 138	$ (42)	$ 97	$ 59
Net earnings (loss) per share (F)				
Basic	$ 1.54	$ (.47)	$ 1.09	$ .66
Diluted	$ 1.53	$ (.47)	$ 1.08	$ .66
Average number of employees	18,319	18,377	18,903	19,784
Shareowners of record at end of year	17,963	18,503	17,823	16,919

(A) Includes restructuring-related transition and other non-recurring costs of $85.9 million, or $.61 per share.

(B) Includes charges for restructuring and asset write-offs of $238.5 million, or $2.00 per share, related transition costs of $71.0 million, or $.49 per share, and a non-cash charge of $10.6 million, or $.07 per share, for a stock option grant as specified in the company's employment contract with its chief executive officer.

(C) 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 chief executive officer.

(D) 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.

(E) 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.

(F) Earnings per share and return on average equity excluding restructuring charges, asset write-offs, related transition costs and other non-recurring charges would have been $2.14 per share and 18.7% in 1998, $2.08 per share and 19.9% in 1997, $1.83 per share and 18.9% in 1996 and $1.45 per share and 16.6% in 1995.

1994	1993	1992	1991	1990	1989	1988
$ 2,511	$ 2,273	$ 2,196	$ 1,942	$ 1,956	$ 1,951	$ 1,888
125	93	98	97	106	117	102
$ 1.40	$ 1.03	$ 1.07	$ 1.12	$ 1.26	$ 1.35	$ 1.18
$ 1.38	$ 1.01	$ 1.06	$ 1.11	$ 1.25	$ 1.34	$ 1.18
67.1%	68.3%	66.8%	66.0%	65.3%	64.8%	65.6%
22.3%	22.5%	24.0%	23.8%	23.7%	23.0%	23.0%
1.2%	1.1%	1.2%	1.3%	1.3%	1.3%	1.7%
1.4%	1.6%	.8%	.8%.	.9%	1.0%	.6%
8.0%	6.5%	7.2%	8.1%	8.8%	9.9%	9.1%
5.0%	4.1%	4.5%	5.0%	5.4%	6.0%	5.4%
$ 1,701	$ 1,577	$ 1,608	$ 1,548	$ 1,494	$ 1,491	$ 1,405
387	377	438	397	398	416	339
$ 744	$ 681	$ 696	$ 689	$ 679	$ 659	$ 684
2.1	2.1	2.4	2.4	2.6	2.6	2.6
39.2%	38.7%	40.1%	37.6%	38.7%	39.6%	35.0%
37.9%	37.4%	37.9%	38.0%	38.4%	39.6%	40.8%
17.6%	13.5%	14.1%	14.1%	15.8%	17.3%	15.5%
$ .69	$ .67	$ .64	$ .61	$ .57	$ .51	$ .46
$ 8.37	$ 7.62	$ 7.66	$ 7.61	$ 8.25	$ 7.66	$ 7.99
22 7/16	23 15/16	24 1/16	22	19 7/8	19 5/8	15 5/8
17 7/16	18 15/16	16 1/4	13	13 5/16	13 3/4	12 3/16
89,550	89,871	91,405	86,532	84,384	86,756	86,217
90,656	91,296	92,842	87,552	84,770	87,194	86,662
$ 125	$ 93	$ 98	$ 97	$ 106	$ 117	$ 102
-	(9)	-	(12)	-	-	(13)
$ 125	$ 84	$ 98	$ 85	$ 106	$ 117	$ 89
$ 1.40	$ .94	$ 1.07	$ .98	$ 1.26	$ 1.35	$ 1.03
$ 1.38	$ .92	$ 1.06	$ .97	$ 1.25	$ 1.34	$ 1.03
19,445	18,988	18,650	17,420	17,784	18,464	18,988
17,599	20,018	20,661	21,297	22,045	22,376	23,031

STANLEY 1998 ANNUAL REPORT

MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

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 an internal audit function. 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.

January 28, 1999

/s/ John M. Trani
- ------------------------------------
John M. Trani
Chairman and Chief Executive Officer

/s/ Theresa F. Yerkes
- ------------------------------------
Theresa F. Yerkes
Vice President, Controller

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Shareowners
The Stanley Works

We have audited the accompanying consolidated balance sheets of The Stanley Works and subsidiaries as of January 2, 1999 and January 3, 1998, and the related consolidated statements of operations, changes in shareowners' equity, and cash flows for each of the three fiscal years in the period ended January 2, 1999. 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 January 2, 1999 and January 3, 1998, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 2, 1999, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Hartford, Connecticut
January 28, 1999, except for the second paragraph of Note H,
as to which the date is February 24, 1999.

MANAGEMENT'S DISCUSSION AND ANALYSIS RESULTS OF OPERATIONS

The company's goal is to become one of the world's Great Brands, delivering sustained, profitable growth. The financial objectives to achieve that goal are sales growth at two times the industry rate, earnings growth in the low- to mid-teens, operating margin in the mid-teens, operating cash flow approximately equal to earnings and return on capital in the low- to mid-twenties. The company has undertaken a major restructuring to consolidate manufacturing and distribution operations, simplify the organizational structure and make other changes to position itself as a low cost producer. The savings associated with those changes are targeted for reinvestment in growth initiatives such as new product and brand development. During 1998, substantial progress was made; however, more fundamental operating problems prevented the attainment of many of the company's financial targets. Worldwide revenues increased 2% and the company reported diluted earnings per share of $1.53 as compared with a loss, the result of restructuring charges, of $.47 per share in 1997.

Net sales in 1998 were $2,729 million, an increase of 2% over 1997. The primary contributors to the revenue gain were the MacDirect venture, growth in consumer mechanics tools, fastening tools and fasteners and acquisitions (Zag and Atro). However, these gains were partially offset by the negative effects of foreign currency translation, primarily Asia and Canada.

Net sales declined between 1996 and 1997, primarily due to divestitures of lower margin businesses. All of the company's core businesses achieved sales increases in 1997; however, these were offset somewhat by the negative effects of currency translation and pricing.

The company's restructuring initiatives are accompanied by costs which affect the financial statements. Restructuring charges in 1997 included severance associated with employment reductions, write-down of assets either disposed of or impaired as a result of the initiatives, environmental costs of remediating facilities to be closed and other similar exit costs. Restructuring-related transition costs are additional costs resulting from these initiatives that are classified as period operating expenses within cost of sales or selling, general and administrative expense. These include the costs of moving production equipment, operating duplicative facilities while transferring production or distribution, consulting costs incurred in planning and implementing changes, and other types of costs that have been incurred to facilitate the changes encompassed by the restructuring initiatives. Management uses its judgment to determine which costs should be classified as transition costs based on whether the costs are unusual in nature, incurred only because of restructuring initiatives and are expected to cease when the transition activities end. In addition, the company is incurring costs to remediate its computer and related systems so that these systems will function properly with regard to date issues related to the year 2000. Because the presence of restructuring charges, restructuring-related transition costs and non-recurring Year 2000 remediation costs obscure the underlying trends within the company's businesses, the company also provides information on its reported results excluding these identifiable costs. These pro forma or "core" results are the basis of business segment information. In addition, the narrative regarding results of operations has been expanded to provide information as to the effects of these items on each financial statement category.

The company reported gross profit of $936 million, or 34.3% of sales. This represented an increase of $50 million, or 6%, over prior year gross profit of $886 million, or 33.2% of sales. The improvement reflects productivity gains from restructuring and centralized procurement activities, the MacDirect venture, and lower spending on transition costs. The full impact of these initiatives was diluted, however, by lower profitability in the fourth quarter due to soft volume and the associated under-absorption in manufacturing operations. Included in cost of sales were restructuring-related transition costs, primarily for plant rationalization activities, of $17 million in 1998 and $31 million in 1997. The higher costs in 1997 related to demand flow manufacturing implementation activities in several facilities. Core gross profit, excluding transition costs, was $953 million, or 34.9% of sales, up from $917 million or 34.4% of sales in the prior year. Contributing to the higher margins were the growth of the MacDirect venture, increased volume and the savings from restructuring and other productivity initiatives.

Gross profit also increased from 1996 to 1997, the result of manufacturing efficiencies from higher volume and the savings realized from restructuring and procurement initiatives. Excluding transition costs, core gross profit as a percent of sales increased from 33.4% in 1996 to 34.4% in 1997.

Selling, general and administrative expenses were $685 million, or 25.1% of sales, up $57 million from the prior year expenses of $628 million, or 23.5% of sales. Approximately $30 million of the increase represented higher restructuring-related and other non-recurring costs, which increased from $40 million in 1997 to $69 million in 1998. Incremental spending on systems conversions for the Year 2000 ("Y2K") remediation of $39 million drove the increase. To the greatest extent possible, the Y2K systems solutions are being designed to provide a common computer platform to directly facilitate the centralization of functions envisioned by the restructuring initiatives. The restructuring-related transition costs in selling, general and administrative expense represent consulting for structural reorganization, recruiting and relocation of employees, the cost of transition employees involved in reorganizing the functions and the cost of moving and maintaining duplicative distribution facilities. Excluding transition and non-recurring Y2K costs, selling, general and administrative expenses would have been $616 million, or 22.6% of sales, as compared with $588 million, or 22.0% of sales, in 1997. The increase is primarily due to higher selling costs associated with the MacDirect venture, which were partially offset by savings from restructuring and other productivity initiatives. The MacDirect venture entails adding a direct sales force in lieu of traditional third party distribution for the Mac(R) branded product line. Higher gross margins more than offset these increased operating expenses. The company has reinvested the benefits realized from the restructuring and other productivity initiatives in engineering and brand development.

Selling, general and administrative expenses increased $19 million from 1996 to 1997, primarily the result of increased transition costs. Excluding these costs, core selling, general and administrative expenses would have been 22.0% of sales as compared with 22.1% in 1996.

Net interest expense increased 39% to $23 million in 1998, primarily due to additional debt for funding acquisitions and higher levels of working capital. The decrease in interest expense from 1996 to 1997 reflected lower average borrowings as well as lower effective interest rates.

Other net expense was $13 million in 1998 and $22 million in 1997 and 1996. Included in 1997 and 1996 are non-cash charges related to the recruitment of the company's chief executive officer. These include an $11 million charge taken in 1997 to reflect the value of stock options granted and $8 million in 1996 reflecting the value of stock rights awarded under the terms of a three-year employment contract.

The company's effective tax rate was 36% in 1998. While prior years were significantly affected by non-deductible restructuring charges, the pro forma effective rate on core earnings for 1997 and 1996 was 37.5% and 38%, respectively. Favorable fourth quarter 1998 tax settlements, which yielded cash refunds, as well as tax restructuring initiatives finalized during the year resulted in the decrease in overall rate.

FOURTH QUARTER

While unit volume growth was consistent throughout the first three quarters of 1998, in the fourth quarter unit volume sales declined 6%. About half the decline resulted from the absence of a fourteenth week which had been present in the prior fiscal year. Other major contributors to the decline were the fact that large U.S. customers did not take advantage of year-end rebates to the extent they had previously and the company experienced operational difficulties in the European sales and distribution reorganization. Primarily as a result of the sales decline, gross margins in the fourth quarter as a percent of sales were 32.6% as compared with 32.9% in the prior year.

BUSINESS SEGMENT RESULTS

In 1998 the company adopted Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of a Business Enterprise and Related Information". As a result, the company changed its depiction of operating segments to Tools and Doors. Prior year amounts have been restated for comparability. The Tools segment includes carpenters, mechanics, pneumatic and hydraulic tools as well as tool sets. The Doors segment includes commercial and residential doors, both automatic and manual, as well as closet doors and systems, home decor and door and consumer hardware. The company assesses the performance of its business segments using Core Operating Profit, which excludes restructuring charges, restructuring-related transition and other non-recurring costs; segment eliminations are also excluded.

Tools	1998	1997	1996
(Millions of Dollars)			
Net Sales	$2,108	$2,024	$ 1,976
Core Operating Profit	$ 279	$ 277	$ 245
% of Net Sales	13.2%	13.7%	12.4%

Net sales increased 4% in 1998, due primarily to the growth of the MacDirect venture and acquisitions. Growth in consumer mechanics tools and fastening tools and fasteners also contributed to higher sales. Operating profit increased, although as a percent of sales it was slightly lower than the prior year. Productivity gains from procurement and restructuring initiatives were offset by lower margins and absorption on lower fourth quarter sales and by operating inefficiencies at the Mechanics Tools wrench and socket plants.

Net sales increased 2% in 1997 over 1996 with particular strength in fastening tools and fasteners. All product lines experienced sales growth; however, the gains were partially offset by price reductions, particularly in fastening tools. Operating margins increased to 13.7% of sales from 12.4% due to manufacturing efficiencies from higher volume and restructuring savings.

Doors	1998	1997	1996
(Millions of Dollars)			
Net Sales	$ 621	$ 646	$ 695
Core Operating Profit	$ 59	$ 52	$ 55
% of Net Sales	9.5%	8.1%	7.9%

Net sales decreased 4% in 1998 as compared to 1997, due to the divestiture in 1998 of the European automatic door business as well as the February 1997 divestiture of the US garage related products business. In addition, all remaining product lines experienced a sales decline except for the automatic door business in the US. Operating margin improved to 9.5%, primarily the result of the divestitures, restructuring initiatives and reduction in material costs.

Net sales decreased 7% from 1996 to 1997. The divestiture of the US garage related products business as well as start up difficulties in moving hardware products to a new central distribution facility were the primary contributors. Operating profit improved to 8.1% from 7.9% due to the divestiture and benefits from restructuring initiatives.

RESTRUCTURING ACTIVITIES

The company made substantial progress on its restructuring initiatives in 1998. The plan called for spending $340 million (approximately $240 million of restructuring charges recorded in 1997 and $100 million of transition costs from 1997 to 1999) to generate annual savings of $145 million, all of which was to be reinvested in growth initiatives. To date the company has closed 39 facilities and reduced employment by approximately 3,000 people. Generally, the plans are progressing as originally identified; however, there has been a shift toward closing more distribution centers, which will result in lower severance costs offset by additional asset write-offs. In addition, the Year 2000 systems remediation activities have delayed several of the functional centralization projects that are dependent on achieving common systems. Those initiatives may not be completely implemented until the end of 2000; however, the delay in timing is not expected to seriously affect the anticipated results of the restructuring program. The company anticipates closing 20 additional facilities as part of the initiatives. Reserves established for restructuring activities at the beginning of 1998 were $167 million, of which $128 million related to severance, $13 million related to environmental remediation, and $26 million to other exit costs. Severance of $26 million was paid in 1998, and payments for other exit costs of $7 million also reduced reserves. The reserve balances at the end of 1998 were $110 million, of which $73 million related to severance, and $37 million to environmental remediation and other exit costs. Reserves classified as short term were $90 million. Total program transition costs are still anticipated to be approximately $100 million, with $60 million having been incurred to date. The funding for cash outlays associated with completing the restructuring initiatives is expected to come from operating cash flow.

Annual savings of $65 million have been generated by the initiatives, all of which have been reinvested into funding growth.

FINANCIAL CONDITION

LIQUIDITY, SOURCES AND USES OF CAPITAL

The company has historically generated strong cash flows from operations. During 1998 the company generated only $56 million in operating cash flow, down $185 million from the prior year. The reasons for the decline were twofold. Almost half was attributable to increased levels of working capital, primarily inventory. During 1998, the company experienced customer service and other operational problems, and responded with higher inventory levels as a partial solution. This phenomenon is expected to reverse, as evidenced by an $11 million drop in inventories in the fourth quarter of 1998, as improved procedures in distribution, customer service and production planning are implemented. In addition to the temporary increase in working capital, the company made cash payments of $33 million for its restructuring activities, primarily severance, and incurred $86 million in restructuring-related transition and Y2K remediation costs. Cash outflows relating to the restructuring and remediation activities are expected to continue, although at a slightly reduced level, throughout 1999.

Funding for working capital and the 1998 acquisition of Zag Industries was provided by increased short-term borrowing. Short-term sources of funds were used for the acquisitions with the intent of ultimately securing medium term financing. In February 1999, the company issued $120 million of 5 year debt to capitalize on the current interest rate environment. Total borrowings increased by $152 million to $567 million at the end of 1998. The company's debt to capital ratio of 45.8% is inflated due to the recent restructuring charges. The company's objective is to return to pre-restructuring levels of 30 to 40%.

Investment in capital of $57 million in 1998 was lower than traditional levels and lower than depreciation and amortization. Facility consolidations, continued outsourcing and the Stanley Production System (which focuses on continuous improvement) collectively reduced the requirement for operating capital, although the level of spending is anticipated to return to a more traditional level.

Dividends increased 8% in 1998. The company's objective is to deliver dividend growth equal to one-half the company's earnings growth rate, ultimately reaching a dividend payout ratio of 25%.

The company's policy is to offset the dilutive impact of its employee benefit programs (stock awards, options, etc.) through the purchase of shares in the open market. The net activity related to the share repurchase program was to reduce equity by $10 million in 1998.

MARKET RISK

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. The company is exposed to market risk from changes in foreign currency exchange rates and interest rates.

Exposure to foreign currency risk results because the company, through its global businesses, enters into transactions and makes investments denominated in multiple currencies. The company's predominant exposures are in European, Canadian and Asian currencies. All cross-currency trade flows arising from sales and procurement activities are consolidated and netted prior to obtaining risk protection, primarily purchased basket options. The company is thus able to capitalize on its global positioning by taking advantage of naturally offsetting exposures to reduce the cost of purchasing protection. From time to time, the company also enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables, predominately intercompany transactions. Gains and losses from these hedging instruments offset the gains or losses on the underlying net exposures, assets and liabilities being hedged. The company has also entered into several cross-currency interest rate swaps, primarily to reduce overall borrowing costs, but also to provide a partial hedge of the net investments in certain subsidiaries. Sensitivity to foreign currency exposure risk from these financial instruments at the end of 1998 would have been immaterial based on the potential loss in fair value from a hypothetical 10% adverse movement in all currencies.

The company's exposure to interest rate risk results from its outstanding debt obligations, short term investments and derivative financial instruments employed in the management of its debt portfolio. The debt portfolio is managed to achieve capital structure targets and reduce the overall cost of borrowing by using a combination of fixed and floating rate debt as well as interest rate swaps, caps and cross-currency interest rate swaps. The company's primary exposure to interest risk comes from its floating rate debt in the US, Canada and Europe and is fairly represented by changes in LIBOR rates. At January 2, 1999, the result of a hypothetical one percentage point increase in short term LIBOR rates would not have resulted in a material impact on the pretax profit of the company.

The company has access to financial resources and borrowing capabilities around the world. As of year end 1998, the company had approximately $100 million of unissued debt securities registered with the Securities and Exchange Commission, which were subsequently issued in February 1999. The company believes that its strong financial position, operating cash flows and borrowing capacity provide the financial flexibility necessary to continue its record of annual dividend payments, to invest in the routine needs of its businesses, to make strategic acquisitions and to fund the restructuring and other initiatives encompassed by its growth strategy.

OTHER MATTERS

ENVIRONMENTAL

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

The company accrues for anticipated costs associated with investigatory and remediation efforts in accordance with appropriate accounting guidelines which address probability and the ability to reasonably estimate future costs. The liabilities are reassessed whenever circumstances become better defined or remediation efforts and their costs can be better estimated. Subject to the imprecision in estimating future environmental costs, the company believes that any sum it may pay in connection with environmental matters in excess of the amounts recorded will not have a materially adverse effect on its financial position, results of operations or liquidity.

YEAR 2000 SYSTEMS ISSUES

Since many computer systems and other equipment with embedded chips or processors use only two digits to represent the year, these business systems may be unable to process accurately certain data before, during or after the year 2000. As a result, business and governmental entities are at risk for possible miscalculations or systems failures causing disruptions in their business operations. This is commonly known as the Year 2000 ("Y2K") issue. The Y2K issue can arise at any point in the company's supply, manufacturing, distribution and financial chains.

A Y2K project office was established in September 1997 and is staffed with internal managers who are responsible for oversight and implementation of the comprehensive Y2K project. Approximately 60% of the internal information technology resources were committed to Y2K remediation efforts in 1998. The scope of the project includes: ensuring the compliance of all applications, operating systems and hardware on mainframe, PC and LAN platforms; addressing issues related to software and non-IT embedded systems used in plant and distribution facilities; and addressing the compliance of key suppliers and customers. The project has four phases: inventory and assessment of systems and equipment affected by the Y2K issue; definition of strategies to address affected systems and equipment; remediation or replacement of affected systems and equipment; and testing that each is Year 2000 compliant.

With respect to ensuring the compliance of all applications, operating systems and hardware (other than PCs) on the company's various computer platforms, the assessment and definition of strategies phases have been completed. It is estimated that 60% of the remediation or replacement and testing phases have been completed with most of the major information systems expected to be completed by mid 1999. The inventory of all PC's and related equipment is 95% complete with assessment, remediation and testing 30% complete and expected to be fully complete by October 1999.

With respect to addressing issues related to software and non-IT embedded systems used in the company's manufacturing and distribution facilities, the assessment and definition of strategies phases have been completed. The remediation or replacement phase, as well as testing, are expected to be completed by the end of the third quarter 1999.

The company will develop contingency plans for remediation projects where the risk of non-completion is identified to be greater than remote. The company anticipates the need to develop contingency plans for only one project, because its expected completion date is in the second half of 1999.

It is currently estimated that the aggregate cost of the company's Y2K efforts will be approximately $95 to $120 million, of which approximately $40 million of incremental costs has been spent to date. It is expected that no more than 25% of the total cost will be capitalized.

The company relies on numerous third party suppliers in the operation of its business. Interruption in the operations of any material supplier due to Y2K issues could affect company operations. The company has initiated efforts to evaluate the status of its most critical suppliers' progress and this process is expected to be complete by mid 1999.

In addition, interruptions in customers' operations due to Y2K issues could result in reduced sales, increased inventory or receivable levels and cash flow reductions. While these events are possible, the company's customer base is broad enough to minimize the impact of the failure of any single customer interface. The company is currently assessing its customer interfaces and expects to begin testing by mid 1999.

EURO CONVERSION

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies ("legacy currencies") and one common currency, the euro. The euro will trade on currency exchanges and may be used in business transactions. Beginning in January 2002, new euro-denominated bills and coins will be issued, and legacy currencies will be withdrawn from circulation. The company's operating subsidiaries affected by the euro conversion are developing plans to address the systems and business issues raised by the euro currency conversion. These issues include, among others, (1) the need to adapt computer and other business systems and equipment to accommodate euro-denominated transactions; and (2) the competitive impact of cross-border price transparency. The company has not yet completed its estimate of the potential impact likely to be caused by the euro conversion; however, it is not expected to have a material impact on its results of operations, liquidity or financial condition.

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective in fiscal year 2000. The adoption of this standard is not expected to have a material impact on the company's results of operations, or financial condition.

CAUTIONARY STATEMENTS

The statements contained in this Annual Report to Shareowners regarding the company's ability to achieve operational excellence and deliver sustained, profitable growth, (e.g., sales growth at twice the industry rate, earnings growth in the low- to mid-teens and dividend growth), are forward looking and inherently subject to risk and uncertainty.

The company's drive for operational excellence is focused on improving customer service, consolidating multiple manufacturing and distribution facilities, outsourcing non-core activities and converting to common systems. The ability to implement the initiatives associated with these goals is dependent on the company's ability to increase the effectiveness of its routine business processes and to develop and execute comprehensive plans for facility consolidations, the ability of the organization to complete the transition to a product management structure without losing focus on the business, the availability of vendors to perform non-core functions being outsourced, 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 other unforeseen events.

The company's ability to generate sustained, profitable growth is dependent on successfully freeing up resources to fund new product and brand development and new ventures to broaden its markets and to defend market share in the face of price competition. Success at developing new products will depend on the ability of the new product development process to foster creativity and identify viable new product ideas as well as the company's ability to attract new product engineers and to design and implement strategies to effectively commercialize the new product ideas. The achievement of growth through new ventures will depend upon the ability to successfully identify, negotiate, consummate and integrate into operations acquisitions, joint ventures and/or strategic alliances.

The company's ability to achieve and sustain the improvements resulting from these initiatives will be dependent on the extent of pricing pressure and other changes in its competitive markets, the continued consolidation of customers in consumer channels, increasing global competition, changes in trade, monetary and fiscal policies and laws, inflation, currency exchange fluctuations, the impact of currency exchange rates on the competitiveness of products and recessionary or expansive trends in the economies in which the company operates.

Many statements contained in the discussion of the state of the company's Y2K readiness are also forward looking and inherently subject to risk and uncertainty. The nature, scope and cost of the company's Y2K project is based on management's best estimates. These estimates are based in part on information obtained from third parties (including customers, suppliers and consultants hired to assist in the Y2K compliance program) and in part on numerous assumptions regarding future events (including the ability of software vendors to implement new operating systems or deliver upgrades and repairs as promised, and the availability of new computer hardware and consultants to meet the company's planned needs). Due to the general level of uncertainty inherent in Y2K analysis, the company is unable to determine conclusively whether the consequences of potential Y2K failures by either the company or its customers and key suppliers will have a material impact on the company's results of operations, liquidity or financial condition. It is likely, however, that if the company is unable to complete its Y2K project as planned or if the company's key suppliers and customers or a sizable number of its smaller suppliers and customers fail to remediate their systems, this will have a material adverse impact on the company's results of operations, liquidity and financial condition. The company's Y2K project is expected to significantly reduce the company's level of uncertainty about the Y2K problem, and to reduce the likelihood of risk of interruptions to routine business operations.

BUSINESS SEGMENTS

In 1998, the company adopted SFAS No. 131, "Disclosure about Segments of a Business Enterprise and Related Information." Prior period amounts have been restated for comparability.

The company operates worldwide in two reportable business segments: Tools and Doors. The Tools segment includes carpenters, mechanics, pneumatic and hydraulic tools as well as tool sets. The Doors segment includes commercial and residential doors, both automatic and manual, as well as closet doors and systems, home decor and door and consumer hardware.

BUSINESS SEGMENTS (MILLIONS OF DOLLARS)	1998	1997	1996
NET SALES			
Tools	$ 2,107.8	$ 2,023.6	$ 1,976.2
Doors	621.3	645.9	694.6
Consolidated	$ 2,729.1	$ 2,669.5	$ 2,670.8
OPERATING PROFIT			
Tools	$ 278.6	$ 276.8	$ 245.1
Doors	58.9	52.6	54.6
	337.5	329.4	299.7
Restructuring, transition and other costs	(85.9)	(320.1)	(88.3)
Other-net	(13.1)	(11.3)	(14.7)
Interest-net	(23.1)	(16.6)	(22.5)
Earnings (loss) before income taxes	$ 215.4	$ (18.6)	$ 174.2
SEGMENT ASSETS			
Tools	$ 1,462.9	$ 1,227.6	$ 1,256.9
Doors	279.6	291.5	318.0
	1,742.5	1,519.1	1,574.9
Corporate assets	190.4	239.6	84.7
Consolidated	$ 1,932.9	$ 1,758.7	$ 1,659.6
CAPITAL EXPENDITURES			
Tools	$ 53.1	$ 70.2	$ 81.1
Doors	11.6	13.9	20.9
DEPRECIATION AND AMORTIZATION			
Tools	$ 57.2	$ 53.5	$ 52.7
Doors	14.2	11.7	13.2

GENERAL INFORMATION

The company assesses the performance of its reportable business segments using operating profit, which follows the same accounting policies as those described in Note A to the Financial Statements. Operating profit excludes interest-net, other-net, and income tax expense. In addition, operating profit excludes restructuring and asset write-offs, restructuring-related transition costs associated with the company's restructuring plans and other non-recurring costs. Corporate and shared expenses are allocated to each segment. Sales between segments are not material. Segment assets primarily include accounts receivable, inventory, other current assets, property, plant and equipment, intangible assets and other miscellaneous assets. Corporate assets and unallocated assets are cash, deferred income taxes and certain other assets. Geographic net sales and long-lived assets are attributed to the geographic regions based on the geographic location of the Stanley subsidiary.

Sales to one customer in both the Tools and Doors segments were approximately 14% and 12% of consolidated net sales in 1998 and 1997, respectively, and were less than 10% in 1996.

GEOGRAPHIC AREAS (MILLIONS OF DOLLARS)	1998	1997	1996
NET SALES			
United States	$ 1,953.4	$ 1,900.6	$ 1,909.3
Other Americas	211.9	227.1	209.8
Europe	467.5	423.6	421.8
Asia	96.3	118.2	129.9
Consolidated	$ 2,729.1	$ 2,669.5	$ 2,670.8
LONG-LIVED ASSETS			
United States	$ 461.1	$ 479.7	$ 544.8
Other Americas	25.4	31.0	33.1
Europe	284.3	159.8	119.4
Asia	41.7	46.8	51.4
Other	34.0	36.1	-
Consolidated	$ 846.5	$ 753.4	$ 748.7

Consolidated Statements of Operations

FISCAL YEARS ENDED JANUARY 2, 1999, JANUARY 3, 1998 AND DECEMBER 28, 1996

(MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	1998	1997	1996
Net Sales	$ 2,729.1	$ 2,669.5	$ 2,670.8
Costs and Expenses			
Cost of sales	1,792.8	1,783.4	1,795.5
Selling, general and administrative	684.7	627.7	608.5
Interest-net	23.1	16.6	22.5
Other-net	13.1	21.9	22.3
Restructuring and asset write-offs	-	238.5	47.8
	2,513.7	2,688.1	2,496.6
Earnings (Loss) Before Income Taxes	215.4	(18.6)	174.2
Income Taxes	77.6	23.3	77.3
Net Earnings (Loss)	$ 137.8	$ (41.9)	$ 96.9
Net Earnings (Loss) Per Share of Common Stock			
Basic	$ 1.54	$ (.47)	$ 1.09
Diluted	$ 1.53	$ (.47)	$ 1.08

See notes to consolidated financial statements.

Consolidated Balance Sheets

January 2, 1999 and January 3, 1998

(MILLIONS OF DOLLARS)	1998	1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 110.1	$ 152.2
Accounts and notes receivable	517.0	472.5
Inventories	380.9	301.2
Deferred taxes	43.6	51.1
Other current assets	34.8	28.3
TOTAL CURRENT ASSETS	1,086.4	1,005.3
PROPERTY, PLANT AND EQUIPMENT	511.4	513.2
GOODWILL AND OTHER INTANGIBLES	196.9	104.1
OTHER ASSETS	138.2	136.1
TOTAL ASSETS	$ 1,932.9	$ 1,758.7
LIABILITIES AND SHAREOWNERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 207.8	$ 80.8
Current maturities of long-term debt	14.2	50.0
Accounts payable	172.1	155.5
Accrued expenses	308.0	336.4
TOTAL CURRENT LIABILITIES	702.1	622.7
LONG-TERM DEBT	344.8	283.7
RESTRUCTURING RESERVES	34.2	67.6
OTHER LIABILITIES	182.4	176.9
SHAREOWNERS' EQUITY		
Preferred stock, without par value:		
Authorized and unissued 10,000,000 shares		
Common stock, par value $2.50 per share:		
Authorized 200,000,000 shares;		
issued 92,343,410 shares in 1998 and 1997	230.9	230.9
Retained earnings	867.2	806.6
Accumulated other comprehensive loss	(84.6)	(85.3)
ESOP debt	(213.2)	(223.8)
	800.3	728.4
Less: cost of common stock in treasury		
(3,571,482 shares in 1998 and 3,555,329 shares in 1997)	130.9	120.6
TOTAL SHAREOWNERS' EQUITY	669.4	607.8
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	$ 1,932.9	$ 1,758.7

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Fiscal years ended January 2, 1999, January 3, 1998 and December 28, 1996

(MILLIONS OF DOLLARS)	1998	1997	1996
OPERATING ACTIVITIES:			
Net earnings (loss)	$ 137.8	$ (41.9)	$ 96.9
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	79.7	72.4	74.7
Restructuring and asset write-offs	--	238.5	47.8
Other non-cash items	32.5	(17.9)	38.5
Changes in operating assets and liabilities:			
Accounts and notes receivable	(41.7)	(38.7)	(28.9)
Inventories	(78.0)	8.6	(10.5)
Accounts payable and accrued expenses	(61.8)	(.7)	9.5
Income taxes	(5.4)	21.8	24.3
Other	(6.9)	(.9)	7.6
Net cash provided by operating activities	56.2	241.2	259.9
INVESTING ACTIVITIES:			
Capital expenditures	(56.9)	(73.3)	(78.7)
Capitalized software	(7.8)	(10.8)	(25.0)
Proceeds from sales of businesses	3.0	34.8	36.4
Business acquisitions	(99.9)	(58.4)	(5.3)
Investment in affiliated company	--	(23.1)	--
Other	10.5	5.4	10.8
Net cash used by investing activities	(151.1)	(125.4)	(61.8)
FINANCING ACTIVITIES:			
Payments on long-term debt	(40.0)	(7.4)	(26.0)
Proceeds from long-term borrowings	60.9	2.8	2.0
Net short-term financing	126.7	75.3	(72.3)
Proceeds from issuance of common stock	21.9	40.5	36.5
Purchase of common stock for treasury	(42.0)	(83.0)	(65.7)
Cash dividends on common stock	(73.9)	(68.6)	(67.6)
Net cash provided (used) by financing activities	53.6	(40.4)	(193.1)
Effect of exchange rate changes on cash	(.8)	(7.2)	3.6
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42.1)	68.2	8.6
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	152.2	84.0	75.4
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 110.1	$ 152.2	$ 84.0

See notes to consolidated financial statements.

Consolidated Statements of Changes In Shareowners's Equity

Fiscal years ended January 2, 1999, January 3, 1998 and December 28, 1996

(MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ESOP DEBT	TREASURY STOCK	SHAREOWNERS' EQUITY
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)				-
Comprehensive income (loss):							
Net earnings			96.9				
Currency translation adjustment				25.1			
Total comprehensive income (loss)							122.0
Cash dividends declared-$.73 per share			(65.2)				(65.2)
Issuance of common stock		(6.2)	(5.1)			53.4	42.1
Purchase of common stock						(71.0)	(71.0)
Tax benefit related to stock options		4.7	.3				5.0
ESOP debt					9.5		9.5
ESOP tax benefit			3.1				3.1
Balance December 28, 1996	230.9	-	919.0	(45.5)	(234.8)	(89.5)	780.1
Comprehensive income (loss):							
Net loss			(41.9)				
Currency translation adjustment				(39.8)			
Total comprehensive income (loss)							(81.7)
Cash dividends declared-$.77 per share			(68.6)				(68.6)
Issuance of common stock			(13.4)			61.1	47.7
Purchase of common stock						(92.2)	(92.2)
Tax benefit related to stock options			8.7				8.7
ESOP debt					11.0		11.0
ESOP tax benefit			2.8				2.8
Balance January 3, 1998	230.9	-	806.6	(85.3)	(223.8)	(120.6)	607.8
Comprehensive income (loss):							
Net earnings			137.8				
Currency translation adjustment				2.1			
Minimum pension liability				(1.4)			
Total comprehensive income (loss)							138.5
Cash dividends declared-$.83 per share			(73.9)				(73.9)
Issuance of common stock			(8.5)			33.8	25.3
Purchase of common stock						(44.1)	(44.1)
Tax benefit related to stock options			2.4				2.4
ESOP debt					10.6		10.6
ESOP tax benefit			2.8				2.8
Balance January 2, 1999	$ 230.9	$ -	$ 867.2	$ (84.6)	$ (213.2)	$ (130.9)	$ 669.4

See notes to consolidated financial statements.

A. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries which require consolidation, after the elimination of intercompany accounts and transactions. The company's fiscal year ends on the Saturday nearest to December 31. There were 52 weeks in fiscal years 1998 and 1996 and 53 weeks in 1997.

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 shareowners' equity. Translation adjustments for operations in highly inflationary economies and exchange gains and losses on transactions are included in earnings.

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.

Impairment losses are 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. Impairment losses were charged to operations in 1997 and 1996 and were included in Restructuring and asset write-offs on the statement of operations.

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 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. Changes in the fair value of options, representing a basket of foreign currencies purchased to hedge anticipated cross-currency cash flows, are included in Other-net expense. The company does not use financial instruments for trading or speculative purposes.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting For Derivative Instruments and Hedging Activities," which is effective in fiscal year 2000. The adoption of this standard is not expected to have a material impact on the company's balance sheet, operating results or cash flows.

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

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

STOCK-BASED COMPENSATION
The company accounts for its employee stock compensation plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost is recognized for stock-based compensation unless the quoted market price of the stock at the grant date is in excess of the amount the employee must pay to acquire the stock. 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 J.

RECLASSIFICATIONS
Certain prior years amounts have been reclassified to conform with the current year presentation.

B. ACQUISITIONS
In August 1998, the company acquired Zag Industries Ltd. (Zag), an innovator and producer of plastic storage products, for $129.3 million. The purchase price included a cash payment of $114.4 million, contingent payments based on Zag's estimated earnings over a five year period and acquisition related costs. The purchase price was allocated to the fair market value of the assets acquired and liabilities assumed and resulted in goodwill of $94.3 million, which is being amortized over a 40 year period.

In November 1997, the company acquired the assets of Atro Industriale, a manufacturer and distributor of pneumatic fastening tools, collated nails, and staples for $46.3 million.

The aforementioned acquisitions were accounted for as purchase transactions and, accordingly, the operating results have been included in the company's consolidated financial statements since the dates of acquisition. The acquisitions did not have a material pro forma impact on operations.

C. 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 January 2, 1999 and January 3, 1998, allowances for doubtful receivables of $26.7 million and $19.8 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 January 2, 1999.

The company sells certain domestic accounts receivable under a revolving sales agreement. The proceeds from these sales were $68.8 million in 1998, $61.9 million in 1997 and $73.1 million in 1996.

D. INVENTORIES

(MILLIONS OF DOLLARS)	1998	1997
Finished products	$ 273.3	$ 203.7
Work in process	52.5	51.9
Raw materials	55.1	45.6
	$ 380.9	$ 301.2

Inventories in the amount of $218.6 million at January 2, 1999 and $160.8 million at January 3, 1998 were valued at the lower of LIFO cost or market. If LIFO inventories had been valued at FIFO costs, they would have been $113.9 million and $120.3 million higher than reported at January 2, 1999 and January 3, 1998, respectively.

E. PROPERTY, PLANT AND EQUIPMENT

(MILLIONS OF DOLLARS)	1998	1997
Land	$ 36.5	$ 34.7
Buildings	229.0	239.7
Machinery and equipment	873.3	833.4
Computer software	59.7	58.3
	1,198.5	1,166.1
Less: accumulated depreciation and amortization	687.1	652.9
	$ 511.4	$ 513.2

The provisions for depreciation and amortization for 1998, 1997 and 1996 were $71.4 million, $65.2 million and $65.9 million, respectively.

F. GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles at the end of each fiscal year, net of accumulated amortization of $80.2 million and $72.2 million, were as follows:

(MILLIONS OF DOLLARS)	1998	1997
Goodwill	$ 177.0	$ 79.0
Other	19.9	25.1
	$ 196.9	$ 104.1

G. ACCRUED EXPENSES

(MILLIONS OF DOLLARS)	1998	1997
Payroll and related taxes	$ 53.5	$ 66.3
Insurance	30.6	25.9
Restructuring	90.3	99.7
Income taxes	26.3	34.1
Other	107.3	110.4
	$ 308.0	$ 336.4

H. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

(MILLIONS OF DOLLARS)		1998	1997
Notes payable in 2002	7.4%	$ 100.0	$ 100.0
Commercial Paper	5.2%	150.0	89.3
Notes payable in 1998		-	34.8
Notes payable due semiannually to 2005	6.1%	31.3	34.3
Industrial Revenue Bonds due in varying amounts to 2010	5.8-6.8%	19.6	19.6
ESOP loan guarantees, payable in varying monthly installments through 2009	6.1%	39.6	46.5
Other		18.5	9.2
		359.0	333.7
Less: current maturities		14.2	50.0
		$ 344.8	$ 283.7

Commercial paper outstanding at January 2, 1999 of $150.0 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.

As of January 2, 1999, the company had on file with the Securities and Exchange Commission a shelf registration statement covering the issuance of up to $200.0 million of debt securities, of which $100.0 million was unused. The remaining debt securities were issued and used to refinance commercial paper on February 24, 1999. The company has unused short and long-term credit arrangements with several banks to borrow up to $400.0 million at the lower of prime or money market rates. Of this amount, $150.0 million is long-term. Commitment fees range from .06% to .07%. In addition, the company has short-term lines of credit with numerous foreign banks aggregating $113.4 million, of which $86.0 million was available at January 2, 1999. Short-term arrangements are reviewed annually for renewal. Of the long-term and short-term lines, $400.0 million is available to support the company's commercial paper program. The weighted average interest rates on short-term borrowings at January 2, 1999 and January 3, 1998 were 5.4% and 6.4%, respectively.

The company has guaranteed the long-term notes payable to banks of its employee stock ownership plan (ESOP). During 1998, the notes payable were refinanced, thereby reducing the interest rate from 7.7% to 6.1% and extending the maturity through 2009. The guarantee is reflected in the consolidated balance sheets as long-term debt with a corresponding reduction in shareowners' equity.

To manage interest costs and foreign exchange risk, the company maintains a portfolio of interest rate swap agreements. 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 $31.3 million of variable rate United States dollar debt to variable rate Dutch Guilder debt (3.9% weighted average rate). See Note I for more information regarding the company's interest rate and currency swap agreements.

Aggregate annual maturities of long-term debt for the years 2000 to 2003 are $12.1 million, $161.8 million, $125.7 million and $12.8 million, respectively. Interest paid during 1998, 1997 and 1996 amounted to $31.2 million, $22.7 million and $26.0 million, respectively.

Commercial paper, utilized to support working capital requirements, classified as current was $148.5 million and $26.9 million, as of January 2, 1999 and January 3, 1998, respectively.

I. FINANCIAL INSTRUMENTS

The company's objectives in using debt related financial instruments are to obtain the lowest cost source of funds within an acceptable range of variable to fixed rate debt proportions, and to minimize the foreign exchange risk of obligations. To meet these objectives the company enters into interest rate swap and currency swap agreements. 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)	1998	1997
Interest rate swaps		
Receive fixed-pay variable rates	$ -	$ 50.0
pay rate	-	5.7%
receive rate	-	6.2%
maturity dates	-	2002
Receive variable-pay fixed rates	$ 167.8	$ 88.0
pay rate	5.1%	4.4%
receive rate	5.2%	5.8%
maturity dates	1999-2003	1999
Currency swaps	$ 106.8	$ 105.5
pay rate	4.9%	4.2%
receive rate	5.7%	5.9%
maturity dates	1999-2005	1999-2005

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. The objective of these practices is to minimize the impact of foreign currency fluctuations on operating results. At January 2, 1999 and January 3, 1998, the company had forward contracts hedging intercompany loans totaling $15.6 million. At January 2, 1999 and January 3, 1998, currency basket options hedged anticipated transactions totaling $79.4 million and $166.0 million, respectively. The forward contracts and options are primarily denominated in Canadian dollars, Japanese yen, Australian dollars, Taiwanese 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 January 2, 1999 and January 3, 1998 is as follows:

(MILLIONS OF DOLLARS)	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	$ 356.2	$ 351.6	$ 334.3	$ 336.6
Currency and interest rate swaps	2.8	2.9	(.6)	(.8)
	$ 359.0	$ 354.5	$ 333.7	$ 335.8

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.

J. CAPITAL STOCK

EARNINGS PER SHARE COMPUTATION

The following table reconciles the weighted average shares outstanding used to calculate basic and diluted earnings per share.

(MILLIONS OF DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS)	1998	1997	1996
Net earnings (loss)- basic and diluted	$ 137.8	$ (41.9)	$ 96.9
Basic earnings per share- weighted average shares	89,407,980	89,469,849	89,151,668
Dilutive effect of employee stock options	785,342	-	652,349
Diluted earnings per share- weighted average shares	90,193,322	89,469,849	89,804,017
Earnings (loss) per share:			
Basic	$ 1.54	$ (.47)	$ 1.09
Diluted	$ 1.53	$ (.47)	$ 1.08

The effect of employee stock options for 1997 was 1,002,456 shares. These shares are not included in the calculations since they are antidilutive.

COMMON STOCK SHARE ACTIVITY

The activity in common shares for each year, net of treasury stock, was as follows:

	1998	1997	1996
Outstanding, beginning of year	88,788,081	88,719,792	88,758,830
Issued for employee stock plans	977,865	2,239,606	2,465,416
Purchased	(994,018)	(2,171,317)	(2,504,454)
Outstanding, end of year	88,771,928	88,788,081	88,719,792

COMMON STOCK RESERVED

At January 2, 1999 and January 3, 1998, the number of shares of common stock reserved for future issuance under various employee and director stock plans was as follows:

	1998	1997
Employee Stock Purchase Plan	4,298,753	4,666,251
Stock Option Plans	7,175,538	7,673,877
Long-term incentive plans	6,765,342	2,833,335
	18,239,633	15,173,463

PREFERRED STOCK PURCHASE RIGHTS

Each outstanding share of common stock has one half of a share purchase right. Each purchase right may be exercised to purchase one two-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of $220.00, subject to adjustment. The rights, which do not have voting rights, expire on March 10, 2006, and may be redeemed by the company at a price of $.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.

In the event that the company is acquired in a merger or other business combination transaction, provision shall be made so that each holder of a right (other than a holder who is a 10%-or-more shareowner) shall have the right to receive, upon exercise thereof, that number of shares of common stock of the surviving company having a market value equal to two times the exercise price of the right. Similarly, if anyone becomes the beneficial owner of more than 10% of the then outstanding shares of common stock (except pursuant to an offer for all outstanding shares of common stock which the independent directors have deemed to be fair and in the best interest of the company), provision will be made so that each holder of a right (other than a holder who is a 10%-or-more shareowner) shall thereafter have the right to receive, upon exercise thereof, common stock (or, in certain circumstances, cash, property or other securities of the company) having a market value equal to two times the exercise price of the right. At January 2, 1999, there were 44,385,964 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 and a Long-Term Incentive Plan (LTIP) for key executives. Each provides for the grant of stock options. The LTIP also provides for the grant of restricted stock and other awards. 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 and granted him 200,000 common stock equivalent share units and an option to purchase 1,000,000 shares at $27.562 (the market value on the date of issuance). Each share unit had a market value of $27.75 on the date of the grant and represents the right to receive one share of common stock. The share units will be distributed in three equal annual installments beginning in 2000. In fiscal year 1996, the fair market value of the share units at their grant date was charged to operations and included in Other-net expense in the Statement of Operations. The option grant, which was approved by shareowners on April 23, 1997, has a ten year term. Fiscal year 1997 includes a charge to operations representing the difference between the exercise price and the fair market value as of the shareowner approval date.

Information regarding the company's stock option plans is summarized below:

	1998		1997		1996	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	4,244,013	$28.49	3,784,738	$ 21.68	4,821,194	$18.34
Granted	1,358,467	29.10	1,966,000	35.34	973,450	27.95
Exercised	(498,339)	21.55	(1,365,235)	20.13	(1,973,230)	16.61
Forfeited	(279,250)	43.20	(141,490)	22.21	(36,676)	21.29
Outstanding, end of year	4,824,891	$29.56	4,244,013	$ 28.49	3,784,738	$21.68
Options exercisable, end of year	3,627,424	$29.02	3,285,513	$ 24.13	2,811,288	$19.51

Options outstanding as of January 2, 1999 had exercise prices as follows: 1,182,274 options ranging from $15.06 to $23.00, 2,583,417 options ranging from $27.56 to $39.09 and 1,059,200 options ranging from $41.53 to $55.98. The weighted average remaining contractual life of these options is 8.2 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 ($37.19 per share for fiscal year 1998 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 1998, 1997 and 1996 shares totaling 367,498, 734,037 and 442,960, respectively, were issued under the plan at average prices of $35.16, $23.69 and $19.61 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 shares of common stock as directed by the Committee. The amounts of $1.6 million, $3.5 million and $2.5 million were charged to expense in 1998, 1997 and 1996, respectively. Shares totaling 67,993, 61,731 and 14,252 were issued in 1998, 1997 and 1996, 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 1994-1998 award cycle.

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 the majority of 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 consistent with the method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation", the company's net earnings (loss) and earnings (loss) per share would have been adjusted to the pro forma amounts indicated below:

	1998	1997	1996
Pro forma net earnings (loss) (in millions)	$ 128.9	$ (56.1)	$ 90.4
Pro forma earnings (loss) per share:			
Basic	$ 1.44	$ (.63)	$ 1.01
Diluted	$ 1.43	$ (.63)	$ 1.01

During the initial phase-in period, as required by SFAS 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 (loss) and earnings (loss) 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 1998, 1997 and 1996, respectively: dividend yield of 3.1%, 1.8% and 2.6% expected volatility of 35% for 1998 and 25% for 1997 and 1996; risk-free interest rates of 5.4%, 6.0% and 6.1%; and expected lives of 7 years. The weighted average fair value of stock options granted in 1998, 1997 and 1996 was $10.90, $15.39 and $8.02, respectively. The fair value of the employees' purchase rights under the Employee Stock Purchase

Plan was estimated using the following assumptions for 1998, 1997 and 1996, respectively: dividend yield of 3.1%, 1.8% and 2.6%; expected volatility of 35% for 1998 and 25% for 1997 and 1996; risk-free interest rates of 4.8%, 6.0% and 5.6%; and expected lives of 1.2 years. The weighted average fair value of those purchase rights granted in 1998, 1997 and 1996 was $7.21, $8.53 and $6.44, respectively.

K. EMPLOYEE BENEFIT PLANS

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

The Account Value Plan (formerly 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, all of which is invested in the company's common stock. The amounts in 1998, 1997 and 1996 under this matching arrangement were $7.9 million, $8.2 million and $8.4 million, respectively. In 1998, the investment options for plan participant contributions were enhanced to include a variety of investment funds in addition to the company's common stock.

In 1998, the ESOP was expanded to include an additional non-contributory benefit for U.S. salaried and non-union hourly employees to replace the pre-existing defined benefit plan. Under the new benefit arrangement, the company contributes amounts ranging from 2% to 7% of employee compensation based on age, ($9.5 million in 1998). Assets of the new benefit are invested in equity securities and bonds.

Shares of the company's common stock held by the ESOP were purchased with the proceeds of external borrowings in 1989 and borrowings from the company in 1991, both of which were refinanced in 1998. The external ESOP borrowings are guaranteed by the company and are included in long-term debt. Shareowners' 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, employer contributions 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 $5.1 million in 1998, $15.2 million in 1997 and $8.6 million in 1996.

Dividends on ESOP shares, which are charged to shareowners' equity as declared, were $15.2 million in 1998 and 1997 and $15.1 million in 1996. Interest costs incurred by the ESOP on external debt for 1998, 1997 and 1996, were $2.9 million, $4.0 million and $4.8 million, respectively. ESOP shares not yet allocated to participants are treated as outstanding for purposes of computing earnings per share. As of January 2, 1999, the number of ESOP shares allocated to participant accounts was 8,346,220 and the number of unallocated shares was 9,261,385.

PENSION AND OTHER BENEFIT PLANS

The company sponsors non-contributory pension plans covering substantially all employees. Benefits for salaried and non-union hourly employees are generally based on salary and years of service, while those for collective bargaining employees are based on a stated amount for each year of service. Additionally, the company contributes to several union-sponsored multi-employer plans which provide defined benefits. In 1998, the company replaced the defined benefit plan for U.S. salaried and non-union hourly employees with a defined contribution plan, which was incorporated into the ESOP. The new plan was actuarially designed to replace the benefits of the pre-existing defined benefit plan. Additional service benefits under the pre-existing plan were frozen as of January 31, 1998, resulting in a net $3.1 million curtailment loss. Contributions under the new plan began in February 1998.

The company's funding policy for its defined benefit plans is to contribute amounts determined annually on an actuarial basis to provide for current and future benefits in accordance with federal law and other regulations. Plan assets are invested in equity securities, bonds, real estate and money market instruments. 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 components of net periodic pension cost are as follows:

(MILLIONS OF DOLLARS)	1998	1997	1996
Service cost	$ 11.1	$ 22.5	$ 20.8
Interest cost	31.6	31.2	31.1
Expected return on plan assets	(43.4)	(37.2)	(35.2)
Amortization of transition asset	(1.2)	(1.7)	(1.7)
Amortization of prior service cost	1.4	1.5	1.5
Other	2.0	2.7	2.8
Curtailment loss	3.1	5.7	-
Net periodic pension cost	$ 4.6	$ 24.7	$ 19.3

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $31.9 million, $22.0 million and $6.8 million as of January 2, 1999, and $25.7 million, $19.6 million and $7.1 million, respectively as of January 3, 1998.

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. Net periodic postretirement benefit expense was $1.9 million in 1998 and 1997 and $2.0 million in 1996.

The funded status of the company's pension and other benefit plans at the end of each fiscal year was as follows:

(MILLIONS OF DOLLARS)	1998	1997	1998	1997
	Pension	Benefits	Other	Benefits
Change in benefit obligation				
Benefit obligation at end of prior year	$ 464.8	$ 448.7	$ 17.5	$ 18.2
Service cost	11.1	22.5	0.6	0.6
Interest cost	31.6	31.2	1.2	1.2
Actuarial (gains) losses	38.8	12.5	(4.1)	(5.1)
Foreign currency exchange rates	(0.8)	(6.4)	-	-
Benefits paid	(32.9)	(43.7)	2.2	2.6
Benefit obligation at end of year	512.6	464.8	17.4	17.5
Change in plan assets				
Fair value of plan assets at end of prior year	525.6	470.6	-	-
Actual return on plan assets	35.1	85.9	-	-
Foreign currency exchange rate changes	1.3	(4.8)	-	-
Employer contribution	5.0	17.6	-	-
Benefits paid	(32.9)	(43.7)	-	-
Fair value of plan assets at end of year	534.1	525.6	-	-
Funded status-assets in excess (less than) benefit obligation	21.5	60.8	(17.4)	(17.5)
Unrecognized prior service cost	9.7	14.0	-	-
Unrecognized net actuarial (gain) loss	(15.5)	(59.3)	2.2	1.9
Unrecognized net asset at transition	(3.5)	(4.6)	-	-
Net amount recognized	$ 12.2	$ 10.9	$(15.2)	$ (15.6)
Amounts recognized in the consolidated balance sheet				
Prepaid benefit cost	$ 31.4	$ 28.8	$ -	$ -
Accrued benefit liability	(21.8)	(22.1)	(15.2)	(15.6)
Intangible asset	1.2	4.2	-	-
Accumulated other comprehensive income	1.4	-	-	-
Net amount recognized	$ 12.2	$ 10.9	$(15.2)	$ (15.6)

Assumptions used for significant pension benefit plans were as follows:

	1998	1997
Discount rate	6.5%	7.0%
Average wage increase	4.5%	4.5%
Expected return on plan assets	10.0%	9.0%

Reducing the discount rate used for measuring the benefit obligation resulted in an actuarial loss of approximately $40 million, included in the change in benefit obligation.

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 8.4% for 1998 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 $1.1 million at January 2, 1999 and net periodic postretirement benefit expense for fiscal year 1998 by $.1 million. A one percentage point decrease in the assumed health care cost trend rate would have an immaterial effect on the accumulated postretirement benefit obligation and net periodic postretirement benefit cost for fiscal 1998. A weighted average discount rate of 6.5% and 7% was used in measuring the accumulated benefit obligations for 1998 and 1997, respectively.

L. OTHER COSTS AND EXPENSES

Interest-net for 1998, 1997 and 1996 included interest income of $7.9 million, $8.1 million and $5.5 million, respectively.

Other-net in 1997 includes a non-cash charge of $10.6 million ($.07 per share), representing the difference between the exercise price and the fair market value of a 1,000,000 share option grant under terms of the company's employment contract with its chief executive officer. This contract resulted in a 1996 charge of $7.6 million ($.08 per share) for the issuance of 200,000 common stock equivalent share units and other immediately vested benefits.

Advertising costs are expensed as incurred and amounted to $46.2 million in 1998, $48.2 million in 1997 and $52.5 million in 1996. Marketing costs for 1998, 1997 and 1996 amounted to $61.4 million, $25.0 million and $23.9 million, respectively.

M. RESTRUCTURING AND ASSET WRITE-OFFS

In 1997, the company announced a restructuring initiative to streamline its manufacturing, sales, distribution and administration operations, reducing its overall cost structure. The company will close approximately 59 manufacturing and distribution facilities. Many of the closures will be effected by consolidating operations into other company facilities, others by outsourcing work to vendors. In addition, the company reorganized its operations into a product management structure, in which product marketing groups will be focusing on customers and sales growth through development of new products and expanding market shares. In support of this structure, manufacturing, engineering, sales and service, finance, human resource and information technology functions will be centralized. The implementation of these restructuring initiatives results in additional transition costs, which are expected to be incurred through mid-1999. In 1997, restructuring and asset write-off charges of $238.5 million included the write-down of assets ($73.6 million), severance for the termination of approximately 8,900 employees ($139.3 million), other exit costs ($32.2 million) offset by gains on the divestiture of two businesses ($6.6 million).

As of January 2, 1999, 39 manufacturing and distribution facilities have been closed. In 1998 and 1997, approximately 2,100 and 900 employees have been terminated as a result of restructuring initiatives, respectively. Severance payments of $26.1 million and $9.2 million and other exit payments of $6.2 million and $5.0 million were made in 1998 and 1997, respectively. Since the restructuring program was announced, certain modifications were made to components of the plan, primarily a shift toward closing more distribution facilities. This will result in lower severance costs, offset by additional asset write-offs. The overall expected costs of the restructuring program have not changed and there have been no material adjustments to the liability. The company believes the existing reserves are sufficient to complete the restructuring initiatives. At January 2, 1999 and January 3, 1998, reserve balances related to the 1997 restructuring were $154.3 million and $208.0 million, of which $44.0 million and $40.9 million relate to the write-down of impaired assets, respectively.

In 1996, the company recorded restructuring and asset write-off charges of $47.8 million for the write-down of assets, severance for approximately 695 employees and other costs associated with a previous restructuring initiative announced in fiscal 1995. Such costs and asset write-offs were primarily related to transfers of production among existing manufacturing facilities, plant closures and resulting workforce reductions ($35.4 million), and impairment of assets related to restructuring initiatives and strategy changes ($9.4 million). The company also divested five businesses during 1996 and recognized an associated net loss of $3.0 million which was included in 1996 restructuring charges.

The 1996 and 1995 restructuring initiatives are complete. During 1998 and 1997, payments of $.9 million and $13.7 million, respectively, were made for severance and other exit costs.

N. BUSINESS SEGMENT AND
GEOGRAPHIC AREA

Business Segment and Geographic Area information included on page 36 of this report is an integral part of the financial statements.

O. 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)	1998	1997
Deferred tax liabilities:		
Depreciation	$ 71.7	$ 74.3
Other	5.5	2.0
Total deferred tax liabilities	77.2	76.3
Deferred tax assets:		
Employee benefit plans	36.6	36.5
Doubtful accounts	14.0	9.7
Inventories	7.6	5.0
Amortization of intangibles	17.1	22.8
Accruals	16.7	18.3
Restructuring charges	62.0	71.1
Other	9.9	8.8
	163.9	172.2
Valuation allowance	(9.1)	(8.8)
Total deferred tax assets	154.8	163.4
Net deferred tax assets	$ 77.6	$ 87.1

Valuation allowances reduce the deferred tax asset attributable to foreign and state loss carryforwards to the amount that, based upon all available evidence, is more likely than not to be realized. Reversal of the valuation allowance is contingent upon the recognition of future taxable income and capital gains in specific foreign countries and specific states, or changes in circumstances which cause the recognition of the benefits to become more likely than not.

Income tax expense consisted of the following:

(MILLIONS OF DOLLARS)	1998	1997	1996
Current:			
Federal	$ 55.5	$ 48.5	$ 49.4
Foreign	13.9	28.7	19.5
State	7.6	8.8	12.6
Total current	77.0	86.0	81.5
Deferred (benefit):			
Federal	(.9)	(36.9)	2.0
Foreign	1.4	(21.6)	(3.7)
State	.1	(4.2)	(2.5)
Total deferred (benefit)	.6	(62.7)	(4.2)
Total	$ 77.6	$ 23.3	$ 77.3

Income taxes paid during 1998, 1997 and 1996 were $71.0 million, $69.1 million and $64.4 million, respectively.

The reconciliation of the federal income tax at the statutory federal rate to the income tax at the effective rate was as follows:

(MILLIONS OF DOLLARS)	1998	1997	1996
Tax at statutory rate	$ 75.4	$ (6.5)	$ 61.0
State income taxes, net of federal benefits	5.0	3.8	6.9
Difference between foreign and federal income tax	(.4)	1.9	.7
Restructuring reserves	-	24.3	7.1
Other-net	(2.4)	(.2)	1.6
Income taxes	$ 77.6	$ 23.3	$ 77.3

The components of earnings (loss) before income taxes consisted of the following:

(MILLIONS OF DOLLARS)	1998	1997	1996
United States	$ 148.6	$ 11.1	$ 156.6
Foreign	66.8	(29.7)	17.6
Total pretax earnings (loss)	$ 215.4	$ (18.6)	$ 174.2

Undistributed foreign earnings of $149.7 million at January 2, 1999 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.

P. 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 January 2, 1999 were $21.1 in 1999, $16.8 in 2000, $12.6 in 2001, $7.8 in 2002, $15.9 in 2003 and $22.8 thereafter. Minimum payments have not been reduced by minimum sublease rentals of $11.6 million due in the future under noncancelable subleases. Rental expense for operating leases amounted to $45.1 million in 1998, $34.9 million in 1997 and $36.6 million in 1996.

Q. 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 13 Superfund sites. Current laws potentially impose joint and several liability upon each PRP. In assessing its potential liability at these sites, the company has considered the following: the solvency of the other PRPs, whether responsibility is being disputed, the terms of existing agreements, experience at similar sites, and the fact that the company's volumetric contribution at these sites is relatively small.

The company's policy is to accrue environmental investigatory and remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The amount of liability recorded is based on an evaluation of currently available facts with respect to each individual site and includes such factors as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. The liabilities recorded do not take into account any claims for recoveries from insurance or third parties. As assessments and remediation progress at individual sites, the amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. As of January 2, 1999, the company had reserves of $30.8 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
1998	First	Second	Third	Fourth	
Net sales	$ 671.9	$ 691.8	$ 689.6	$ 675.8	$ 2,729.1
Gross profit	236.9	242.9	236.4	220.1	936.3
Selling, general and administrative expenses	171.1	166.1	172.7	174.8	684.7
Net earnings	$ 36.4	$ 42.2	$ 33.4	$ 25.8	$ 137.8
Net earnings per share:					
Basic	$ .41	$ .47	$ .37	$ .29	$ 1.54
Diluted	$ .40	$ .47	$ .37	$ .29	$ 1.53
1997					
Net sales	$ 646.6	$ 673.6	$ 650.5	$ 698.8	$ 2,669.5
Gross profit	215.2	227.5	213.9	229.5	886.1
Selling, general and administrative expenses	153.2	153.8	148.2	172.5	627.7
Restructuring and asset write-offs	(4.6)	137.2	105.9	-	238.5
Net earnings (loss)	$ 36.7	$ (64.5)	$ (40.6)	$ 26.5	$ (41.9)
Net earnings (loss) per share:					
Basic	$ .41	$ (.72)	$ (.46)	$ .30	$ (.47)
Diluted	$ .41	$ (.72)	$ (.46)	$ .29	$ (.47)

Note: The second quarter of 1997 includes a charge of $10.6 million, or $.07 per share, for a stock option grant as specified in the company's employment contract with its chief executive officer.

Corporate Information

BOARD OF DIRECTORS

JOHN M. TRANI (1)
Chairman and
Chief Executive Officer
The Stanley Works

STILLMAN B. BROWN (1), (4), (5)
Managing General Partner
Harcott Associates Investments

EDGAR R. FIEDLER (2), (4)
Retired; former Vice President
and Economic Counselor
The Conference Board

MANNIE L. JACKSON (4), (5)
Chairman
Harlem Globetrotters International,
a division of MJA, Inc.

JAMES G. KAISER (2), (3)
Chairman, Avenir Partners
automotive retailing; 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

HUGO E. UYTERHOEVEN (3), (5)
Professor emeritus, 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), (2), (3)
Director of various organizations

(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

CORPORATE OFFICERS

WILLIAM D. HILL
Vice President, Engineering and Technology
(1997)

STEF G.H. KRANENDIJK
President Europe
(1998)

KENNETH O. LEWIS
Vice President, Marketing and Brand Development
(1997)

MARK J. MATHIEU
Vice President, Human Resources
(1997)

PAUL W. RUSSO
Vice President, Strategy and Development
(1995)

JOHN M. TURNER
President, Consumer Sales Americas
(1998)

JOHN M. TRANI
Chairman and Chief Executive Officer
(1997)

STEPHEN S. WEDDLE
Vice President, General Counsel and Secretary
(1978)

THERESA F. YERKES
Vice President and Controller
(1989)

(Joined Stanley)

Investor and Shareowner Information

COMMON ST0CK

The Stanley Works common stock is listed on the New York and Pacific Stock Exchanges under the abbreviated ticker symbol "SWK", and is a component of the S&P 500 Composite Stock Price Index.

COMMON STOCK (DOLLARS PER SHARE)

	Price				Dividends	
	1998		1997		1998	1997
	High	Low	High	Low		
First Quarter	56 1/16	42 1/4	41	28	$.20	$.185
Second Quarter	57 1/4	40 1/2	44 3/8	35 1/2	.20	.185
Third Quarter	47 3/4	27 1/8	47 3/8	39 1/4	.215	.20
Fourth Quarter	32 9/16	23 1/2	47 3/16	39 15/16	.215	.20
					$.83	$.77

DIVIDENDS

The Stanley Works has 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 -- 122 CONSECUTIVE YEARS.

Our quarterly dividend record is the longest of any industrial company listed on the New York Stock Exchange -- 415 CONSECUTIVE QUARTERS.

We have increased dividends in each of the past 31 YEARS, and in that same period, an investment in Stanley stock grew at a compound annual rate of 12.6%.

INCREASED DIVIDENDS EVERY YEAR SINCE 1968

DIVIDEND PER SHARE IN DOLLARS $.83 PER SHARE

(GRAPHIC OMITTED)

TRANSFER AGENT AND REGISTRAR

All shareowner inquiries, including transfer-related matters, should be directed to:

EquiServe, Servicing Agent for State Street Bank and Trust Company
P.O. Box 8200, Boston, MA 02266-8200 - (800) 543-6757

CORPORATE OFFICES

The company's principal corporate offices are located at:
1000 Stanley Drive, New Britain, CT 06053 - (860) 225-5111

ANNUAL MEETING

The annual shareowners' meeting of The Stanley Works will be held at 9:30 a.m. on Wednesday, April 28, 1999, in Columbus, Ohio at the Crowne Plaza Hotel, 33 Nationwide Blvd. A formal notice of the meeting together with a proxy statement has been mailed to shareowners with this annual report.

INDEPENDENT AUDITORS

Ernst & Young LLP, 225 Asylum Street, Hartford, Connecticut 06103

FINANCIAL & INVESTOR COMMUNICATIONS

The Stanley Works investor relations department provides information to shareowners 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 department at our corporate offices by calling Gerard J. Gould, Director, Investor Relations 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 and a variety of shareowner information can be found at the following address on the World Wide Web: http://www.stanleyworks.com. Click on "Investor Relations". Stanley shareowners are also able to call toll-free (800) 499-9202 to request a copy of the most recent quarterly release.

DIVIDEND REINVESTMENT PLAN AND DIRECT STOCK PURCHASE

Shareowners may have dividends automatically reinvested in Stanley common stock and/or make optional cash payments to increase their common stock investment. Inquiries regarding this service should be directed to:

EquiServe, Servicing Agent for State Street Bank and Trust Company
P.O. Box 8200, Boston, MA 02266-8200 - (800) 543-6757

EXHIBIT 21

(All subsidiaries are included in the Consolidated Financial Statements of The Stanley Works)

Corporate Name	Jurisdiction of Incorporation
The Stanley Works	Connecticut
The Farmington River Power Company	Connecticut
Stanley Germany Inc.	Delaware
Stanley Foreign Sales Corporation	Virgin Islands
Stanley Real Estate Holdings Corporation	Florida
Jensen Tools, Inc.	Delaware
Stanley-Bostitch, Inc.	Delaware
Stanley-Bostitch Holding Corporation	Delaware
Stanley Mail Media, Inc.	Delaware
Stanley Logistics, Inc.	Delaware
Stanley Fastening Systems, L.P.	Delaware
Stanley Receivables Corp.	Delaware
Stanley European Holdings, L.L.C.	Delaware
Stanley Canada Inc.	Ontario
Stanley Tools (N.Z.) Ltd.	New Zealand
Ferramentas Stanley Ltda.	Brazil
Herramientas Stanley, S.A. de C.V.	Mexico
Stanley-Bostitch, S.A. de C.V.	Mexico
Stanley Tools SpA	Italy

EXHIBIT 21

Corporate Name	Jurisdiction of Incorporation
(The Stanley Works)	
Stanley Atlantic, Inc.	Delaware
Stanley Israel Investments, Inc.	Delaware
Stanley Israel Investments B.V.	Netherlands
T.S.W. Israel Investments Ltd. (One share owned by Stanley Israel Investments, Inc.)	Israel
ZAG Industries Ltd.	Israel
Stanley Works (Nederland) B.V.	Netherlands
Stanley Nirva S.A.	France
S.I.C.F.O.-Stanley S.A.	France
Stanley Europe B.V. (S.I.C.F.O. owns 50% & Bostitch S.A. & Simax own 25% each)	Netherlands
Stanley Bostitch S.A.	France
Soc. de Fab. Bostitch S.A.(Simax)	France
Societe Civile Immobiliere WAT	France
Stanley Iberia S.A.	Spain
Stanley Vaerktoj ApS	Denmark
Stanley Svenska A.B.	Sweden
Suomen Stanley OY	Finland
Bostitch G.m.b.H.	Germany
Friess G.m.b.H.	Germany

EXHIBIT 21

Corporate Name	Jurisdiction of Incorporation
(The Stanley Works)	
Bostitch AG	Switzerland
S.A. Stanley Works (Belgium) N.V.	Belgium
International Staple & Machine Co. n.v.	Belgium
The Stanley Works C.V.	Netherlands
Stanley International Holdings Inc.	Delaware
Stanley Pacific Inc.	Delaware
Stanley-Bostitch Pty. Limited	Australia
The Stanley Works Pty. Ltd.	Australia
Stanley Works Asia Pacific Pte. Ltd.	Singapore
The Stanley Works (Hong Kong) Ltd.	Hong Kong
The Stanley Works Sales (Philippines), Inc.	Philippines
The Stanley Works (Bermuda) Ltd.	Bermuda
The Stanley Works Japan K.K.	Japan
Stanley Works Ltd.	Thailand
Stanley Tools Poland Ltd.	Poland
Tona a.s. (Ltd.) (86%)	Czech Republic
Stanley Works Malaysia Sdn. Bhd.	Malaysia
Stanley Fastening Systems Poland Ltd.	Poland
Stanley de Chihuahua, S. de R.L. de C.V.	Mexico
Stanley Works China Investments Ltd. (80%)	Virgin Islands
Stanley (Zhongshan) Hardware Co. Ltd. (65%)	China

EXHIBIT 21

Corporate Name	Jurisdiction of Incorporation
(The Stanley Works)	
Stanley U.K. Holding Limited	U.K.
ATRO Limited	U.K.
The Stanley Works Limited	U.K.
Mosley-Stone Ltd.	U.K.
R.J. Lendrum Limited	U.K.
Stanley Chiro International Ltd.	Taiwan
Stanley Italia S.r.l.	Italy
FIPADUE S.r.l.	Italy
Beijing Daxing Stanley-Bostitch Metal Industries Company Limited (98%)	China
Stanley Europe B.V.B.A.	Belgium
Stanley (Tianjin) International Trading Co. Ltd.	China

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.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
STANLEY WORKS AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS AND
STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE
TO SUCH FINANCIAL STATEMENTS.

YEAR
JAN-02-1999
JAN-02-1999
110,100
0
543,700
26,700
380,900
1,086,400
1,198,500
687,100
1,932,900
702,100
344,800
0
0
230,900
438,500
1,932,900
2,729,100
2,729,100
1,792,800
1,792,800
0
0
23,100
215,400
77,600
137,800
0
0
0
137,800
1.54
1.53

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

THE STANLEY ACCOUNT VALUE PLAN
(FORMERLY THE STANLEY WORKS 401(K) SAVINGS PLAN)

Years ended December 31, 1998 and 1997

The Stanley Account Value Plan
(formerly The Stanley Works 401(k) Savings Plan)

Audited Financial Statements
and Supplemental Schedules

Years ended December 31, 1998 and 1997

CONTENTS

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 Account Value Plan, formerly The Stanley Works 401(k) Savings Plan, as of December 31, 1998 and 1997, 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, 1998 and 1997, 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, 1998, 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 1998 financial statements and, in our opinion, are fairly stated in all material respects in relation to the 1998 financial statements taken as a whole.

/s/Ernst & Young LLP

Hartford, Connecticut
March 19, 1999

The Stanley Account Value Plan

Statement of Financial Condition

December 31, 1998

	STANLEY STOCK FUND	LOAN FUND	CORNERSTONE FUND	UNALLOCATED STANLEY STOCK FUND	BT PYRAMID EQUITY INDEX FUND	INVESCO RETIREMENT TRUST STABLE VALUE FUND
ASSETS						
Investments, at current market value:						
The Stanley Works Common Stock:						
8,417,217 shares (cost $145,012,172)	$ 233,577,772					
9,261,385 shares (cost $160,258,796)				$ 257,003,434		
Short-term investments	3,528,034			2,771		
BT Pyramid Equity Index Fund					$ 1,633,055	
Invesco Retirement Trust Stable Value Fund						$ 972,618
American Funds Euro Pacific Growth Fund						
Fidelity Management Trust Company Select Small CAP Fund						
	237,105,806			257,006,205	1,633,055	972,618
Contributions receivable	1,970,567		$ 5,020,000			
Dividends and interest receivable	11,687			900	3	20
Due to (from) Cornerstone Fund	(4,480,000)		4,480,000			
Debt issuance costs, net of amortization of $47,190				2,784,188		
Loans to participants		$ 12,562,808				
	$ 234,608,060	$ 12,562,808	$ 9,500,000	$ 259,791,293	$ 1,633,058	$ 972,638
LIABILITIES AND PLAN EQUITY						
Liabilities:						
Debt				$ 213,236,612		
				213,236,612		
Plan equity	$ 234,608,060	$ 12,562,808	$ 9,500,000	46,554,681	$ 1,633,058	$ 972,638
	$ 234,608,060	$ 12,562,808	$ 9,500,000	$ 259,791,293	$ 1,633,058	$ 972,638

See accompanying notes.

AMERICAN FUNDS EURO PACIFIC GROWTH FUND	FIDELITY MANAGEMENT TRUST COMPANY SELECT SMALL CAP FUND	TOTAL
		$ 233,577,772
		257,003,434
		3,530,805
		1,633,055
		972,618
$ 525,429		525,429
	$ 589,990	589,990
525,429	589,990	497,833,103
		6,990,567
1	1	12,612
		2,784,188
		12,562,808
$ 525,430	$ 589,991	$ 520,183,278
		$213,236,612
		213,236,612
$ 525,430	$ 589,991	306,946,666
$ 525,430	$ 589,991	$ 520,183,278

The Stanley Account Value Plan

Statement of Financial Condition

December 31, 1997

	STANLEY STOCK FUND	LOAN FUND	UNALLOCATED STANLEY STOCK FUND	TOTAL
ASSETS				
Investments, at current market value:				
The Stanley Works Common Stock:				
8,997,264 shares (cost $132,445,673)	$ 424,558,395			$ 424,558,395
10,007,568 shares (cost $181,101,634)			$ 472,232,116	472,232,116
Short-term investments	2,515,153			2,515,153
	427,073,548		472,232,116	899,305,664
Contributions receivable	3,062,065			3,062,065
Dividends and interest receivable	45,195		1,594,244	1,639,439
Loans to participants		$ 12,323,967		12,323,967
	$ 430,180,808	$ 12,323,967	$ 473,826,360	$ 916,331,135
LIABILITIES AND PLAN EQUITY				
Liabilities:				
Due to Retirement Plan for Salaried Employees of The Stanley Works	$ 262,146			$ 262,146
Debt			$ 224,647,020	224,647,020
	262,146		224,647,020	224,909,166
Plan equity	429,918,662	$ 12,323,967	249,179,340	691,421,969
	$ 430,180,808	$ 12,323,967	$ 473,826,360	$ 916,331,135

See accompanying notes.

The Stanley Account Value Plan

Statement of Income and Changes in Plan Equity

Year ended December 31, 1998

	STANLEY STOCK FUND	LOAN FUND	CORNERSTONE FUND	UNALLOCATED STANLEY STOCK FUND	BT PYRAMID EQUITY INDEX FUND	INVESCO RETIREMENT TRUST STABLE VALUE FUND
Investment income:						
Dividends	$ 7,187,776			$ 7,968,259		$ 28,356
Interest	115,232	$ 740,986		41,790	$ 84	20
	7,303,008	740,986		8,010,049	84	28,376
Net realized and unrealized appreciation (depreciation)	(172,047,896)			(194,385,843)	158,390	
Employee contributions	20,470,845				644,988	255,043
Employer contribution			$ 5,020,000			
Withdrawals:						
Cash	(40,629,708)				(4,468)	(118,962)
The Stanley Works Common Stock	(2,519,143)					
	(43,148,851)				(4,468)	(118,962)
Administrative expenses	(588,725)				(254)	(1,581)
Amortization expense				(47,190)		
Interest expense				(17,222,398)		
Interfund transfers - net	(7,298,983)	(502,145)	4,480,000	1,020,723	834,318	809,762
Net increase (decrease)	(195,310,602)	238,841	9,500,000	(202,624,659)	1,633,058	972,638
Plan equity at beginning of year	429,918,662	12,323,967		249,179,340		
Plan equity at end of year	$ 234,608,060	$ 12,562,808	$ 9,500,000	$ 46,554,681	$ 1,633,058	$ 972,638

See accompanying notes.

AMERICAN FUNDS EURO PACIFIC GROWTH FUND	FIDELITY MANAGEMENT TRUST COMPANY SELECT SMALL CAP FUND	TOTAL
$ 11,847		$ 15,196,238
2,413	$ 10	900,535
14,260	10	16,096,773
(6,859)	20,618	(366,261,590)
190,447	241,869	21,803,192
		5,020,000
(531)	(718)	(40,754,387)
		(2,519,143)
(531)	(718)	(43,273,530)
		(590,560)
		(47,190)
		(17,222,398)
328,113	328,212	
525,430	589,991	(384,475,303)
		691,421,969
$ 525,430	$ 589,991	$ 306,946,666

The Stanley Account Value Plan

Statement of Income and Changes in Plan Equity

Year ended December 31, 1997

	STANLEY STOCK FUND	LOAN FUND	UNALLOCATED STANLEY STOCK FUND	TOTAL
Investment income:				
Dividends	$ 7,197,351		$ 7,993,754	$ 15,191,105
Interest	91,621	$ 881,528	15,600	988,749
	7,288,972	881,528	8,009,354	16,179,854
Net realized and unrealized appreciation in The Stanley Works Common Stock	194,715,441		194,046,566	388,762,007
Employee contributions	20,080,006			20,080,006
Withdrawals:				
Cash	(36,544,886)			(36,544,886)
The Stanley Works Common Stock	(5,316,015)			(5,316,015)
	(41,860,901)			(41,860,901)
Administrative expenses	(537,601)		(845)	(538,446)
Interest expense			(18,796,633)	(18,796,633)
Interfund transfers - net	(8,747,461)	(53,199)	8,800,660	
Net increase	170,938,456	828,329	192,059,102	363,825,887
Plan equity at beginning of year	258,980,206	11,495,638	57,120,238	327,596,082
Plan equity at end of year	$ 429,918,662	$ 12,323,967	$ 249,179,340	$ 691,421,969

See accompanying notes.

The Stanley Account Value Plan

Notes to Financial Statements

December 31, 1998

1. DESCRIPTION OF THE PLAN

The Stanley Account Value Plan, formerly The Stanley Works 401(k) Savings Plan, (the "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 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 up to 15% of their compensation, as defined in the 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.

Prior to 1998, participant and Company contributions were invested in the Stanley Stock Fund. In 1998, the investment options for plan participant contributions were enhanced to include four investment funds in addition to the Company's common stock. Participants may invest in one fund, divide the account value among the funds or choose one of three pre-mixed blended investment options. Participant and Company contributions invested in the Stanley Stock Fund are guaranteed, if necessary, by the Retirement Plan for Salaried Employees of The Stanley Works or by the Pension Plan for Hourly Paid Employees of The Stanley Works, providing 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. The following investment funds are offered to participants:

STANLEY STOCK FUND--Consists of common stock of The Stanley Works. This stock is traded on the New York and Pacific Stock Exchanges under the symbol SWK.

BT PYRAMID EQUITY INDEX FUND--Seeks long-term growth, subject to the short-term fluctuations characteristic of the stock market. The fund invests in most of the Standard & Poors 500 (S&P 500), as well as other investments whose value is based on S&P 500 stocks.

INVESCO RETIREMENT TRUST STABLE VALUE FUND--Seeks liquidity and safety of principal, while providing a higher return than is typically offered by money market funds. The fund invests in a diversified portfolio of investment contracts with insurance companies, banks and other financial institutions.

AMERICAN FUNDS EUROPACIFIC GROWTH FUND--Seeks long-term growth, subject to the risks involved in investing outside of the United States, such as currency fluctuations, political instability, differing securities regulations and periods of liquidity.

1. DESCRIPTION OF THE PLAN (CONTINUED)

FIDELITY MANAGEMENT TRUST COMPANY SELECT SMALL CAP FUND--Seeks long-term growth, subject to the short-term fluctuations characteristic of the small stock market. The fund invests in securities of small capitalization companies in various industries.

In 1998, the Plan was amended to provide an additional non-contributory benefit for U.S. salaried and non-union hourly employees ("Cornerstone Fund"). Under the new benefit arrangement, the Company contributes amounts ranging from 3% to 9% of employee compensation based on age (for 1998, percentages ranged from 2% to 7%). Assets of the new benefit feature are invested in equity securities and bonds.

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.

Effective in July 1998, the assets of the Plan are held in trust by an independent corporate trustee, Citibank, N. A. (the "Trustee") pursuant to the terms of a written Trust Agreement between the Trustee and the Company. Prior to July, State Street Bank and Trust Company served as Trustee.

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.

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.

1. DESCRIPTION OF THE PLAN (CONTINUED)

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 Plan with respect to the participant's account value attributable to the outstanding loan balance.

The 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 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. During 1998, these excess funds fully offset the Company's matching contribution.

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.

1. DESCRIPTION OF THE PLAN (CONTINUED)

The Company reserves the right to terminate the Plan at any time, subject to its provisions. Upon such termination of the 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. During 1998, the Plan experienced a partial plan termination resulting in the immediate vesting of certain participants'accounts.

The 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.

At December 31, 1998 and 1997, benefits payable to terminated vested participants amounted to $1,093,501and $6,864,864, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS

The 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. 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 Plan.

3. DEBT

Debt consisted of the following at December 31:

	1998	1997
Notes payable in monthly installments to 2009 with interest at 6.07%	$ 39,610,763	$ 47,352,052
Notes payable to the Company in monthly installments to 2028 with interest at 6.09%	173,625,849	177,294,968
	$ 213,236,612	$ 224,647,020

During 1998, notes payable to financial institutions were refinanced, resulting in a reduction in the interest rate, extension of the maturity and a prepayment penalty of $2,831,378, which is being amortized over the remaining term of the debt. Concurrently, notes payable to the Company were restructured, resulting in a reduction in the interest rate and extension of the maturity. Additionally, the Plan borrowed funds from the Company to pay the prepayment penalty.

The scheduled maturities of debt for the next five years are as follows: 1999--$11,000,000; 2000--$7,400,000; 2001--$7,100,000; 2002--$6,900,000 and 2003--$7,000,000.

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, 385,747 shares were released and at December 31, 1998, 7,972,316 shares are pledged as security.

Payment of the 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 1998 and 1997 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 Plan. Fees incurred and paid by the Plan during 1998 and 1997 were $590,560 and $538,446, respectively.

4. TRANSACTIONS WITH PARTIES-IN-INTEREST (CONTINUED)

In 1991, the Plan borrowed $180,000,000 from the Company, the proceeds of which were used to purchase 9,696,968 shares of stock from the Plan. In 1998, the Plan borrowed $2.8 million from the Company, the proceeds of which were used to pay a prepayment penalty incurred in connection with debt refinancing. The Plan made $31,464,184 and $14,721,703 of principal and interest payments related to such debt in 1998 and 1997, respectively. At December 31, 1998, $173,625,849 was outstanding on such debt.

5. INCOME TAX STATUS

The Internal Revenue Service has ruled that the 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 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 Plan's qualified status.

The Stanley Account Value Plan

Assets Held for Investment

December 31, 1998

IDENTITY OF ISSUE, BORROWER, OR SIMILAR PARTY	DESCRIPTION OF INVESTMENT, INCLUDING MATURITY DATE, RATE OF INTEREST, PAR OR MATURITY VALUE	COST	CURRENT VALUE
Common Stock:			
The Stanley Works*	17,678,602 shares of Common Stock; par value $2.50 per share	$ 305,270,968	$ 490,581,206
Citibank, N.A. *	Short-Term Investment Fund- Pooled Bank Fund	3,527,904	3,527,904
Trust Funds:			
State Street Bank and Trust Company*	United States Government securities	2,901	2,901
BT Pyramid Equity Index Fund	Pyramid Equity Index Fund	1,474,666	1,633,055
Invesco Retirement Trust Stable Value Fund	Invesco Retirement Trust	972,618	972,618
American Funds Euro Pacific Growth Fund	Euro Pacific Growth Fund	532,287	525,429
Fidelity Management Trust Company Select Small Cap Fund	Fidelity Select Small Capitalization Pool	569,372	589,990
Loans to participants	Promissory notes at prime rate with maturities of five years or ten years	12,562,808	12,562,808
Total investments		$ 324,913,524	$ 510,395,911

* Indicates party-in-interest to the Plan.

The Stanley Account Value Plan

Transactions or Series of Transactions in Excess of 5% of the Current Value of Plan Assets

Year Ended December 31, 1998

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					
Citibank, N.A.*	Short-Term Investment Fund-United States Government Securities		$ 37,662,287	$ 37,662,287	
Citibank, N.A.*	Short-Term Investment Fund-United States Government Securities	$ 34,136,396		34,136,396	

There were no category (i), (ii) or (iv) reportable transactions during 1998.

* Indicates party-in-interest to the Plan.