

**STANLEY**

MAKE SOMETHING GREAT™



**THE STANLEY WORKS**

**4Q and Full Year 2008 Overview**

**Participants:**

**John Lundgren – Chairman & CEO**

**Jim Loree – Executive VP & COO**

**Don Allan – VP & CFO**

**Kate White – Director of Investor Relations**

**Certain statements contained in this presentation are forward looking. These are based on assumptions of future events which may not prove to be accurate. They involve risk and uncertainty. Actual results may differ materially from those expected or implied. We direct you to the cautionary statements detailed in this morning's press release and Form 8-K and our recent 1934 Act SEC filings.**

## Highlights

- **EPS Results In Line With Previously Communicated Estimates**  
**\$0.66 4Q'08, \$3.41 FY'08 (Pre-4Q Restructuring)**
- **FY'08 Free Cash Flow of \$419 million**
- **Working Capital Turns Improved by 0.6 to 5.9 Despite Unprecedented Volume Decline**
- **Price Realization Virtually Offset Strong Inflation Headwinds**
- **Convergent Security Grew Revenues by 21% and Operating Margin Expanded Significantly**
- **Security Segment Makes Up Largest Portion of 4Q Sales (38%)**

**Total 4Q Revenues Down 5%...**

\$ millions

**4Q'07**

**4Q'08**

**Revenues**

**\$1,138**

**\$1,086**

**- \$52**

**- 5%**

**Sources Of Revenue**

**Volume**

**- 10%**

**Price**

**+ 4%**

**Organic**

**- 6%**

**Currency**

**- 5%**

**Acquisitions**

**+ 6%**

**- 5%**

**Segment Results**

**Total**

**Organic**

**CDIY**

**- 16%**

**- 10%**

**Industrial**

**- 10%**

**- 9%**

**Security**

**+ 14%**

**0%**

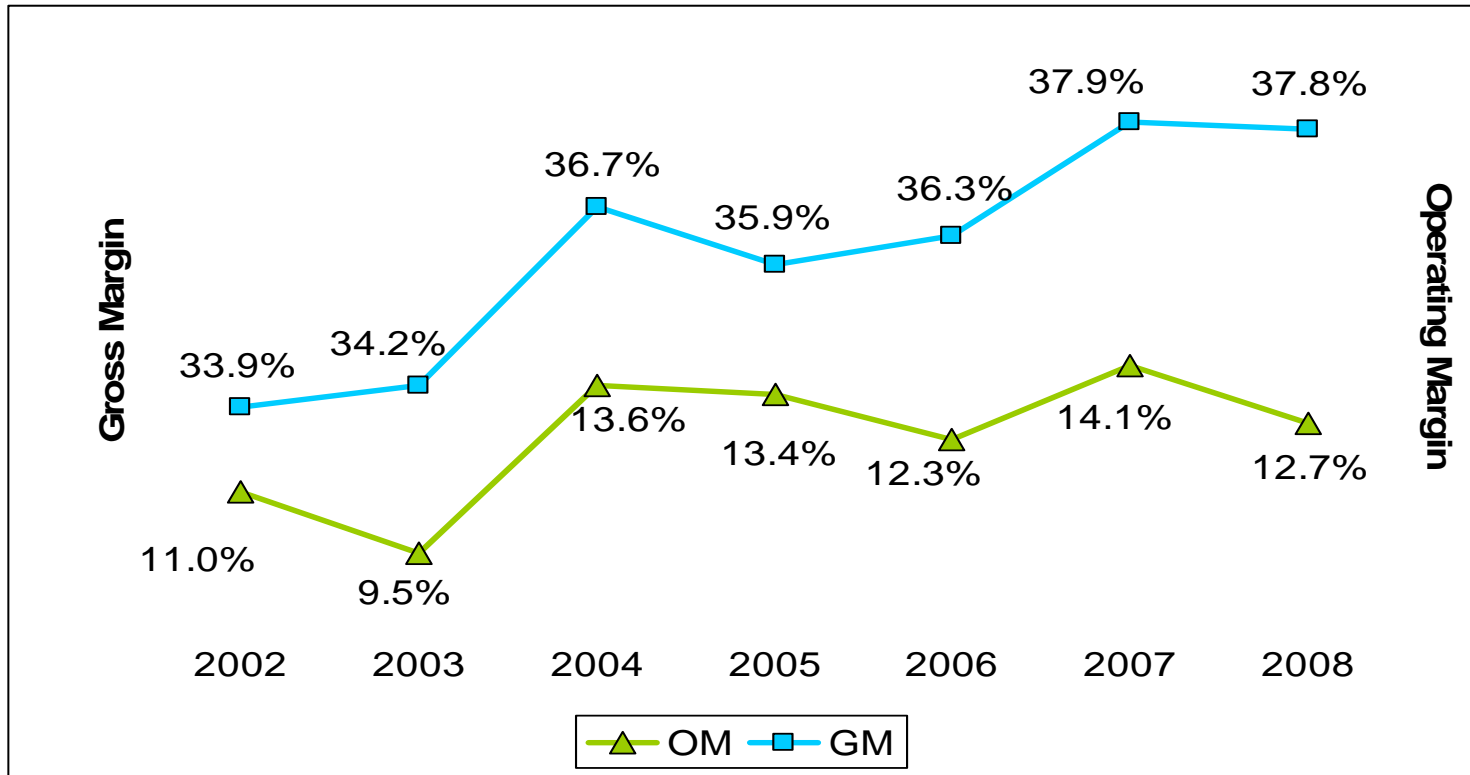
**SWK**

**- 5%**

**- 6%**

**...With 10% Unit Volume Decline**

**Gross Margin Rate Held To Prior Year...**

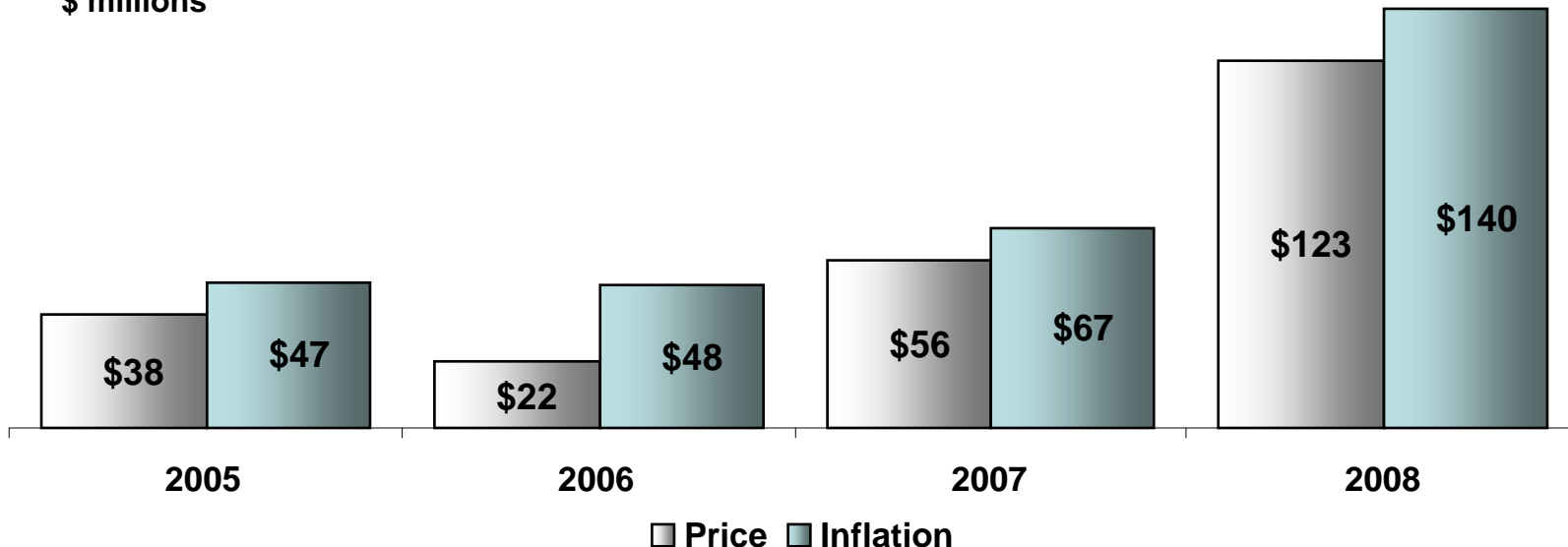


**...Despite Unprecedented Volume And Inflation Headwinds**

## *Inflation Recovery Continues To Improve...*

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Recovery %	81%	45%	83%	88%

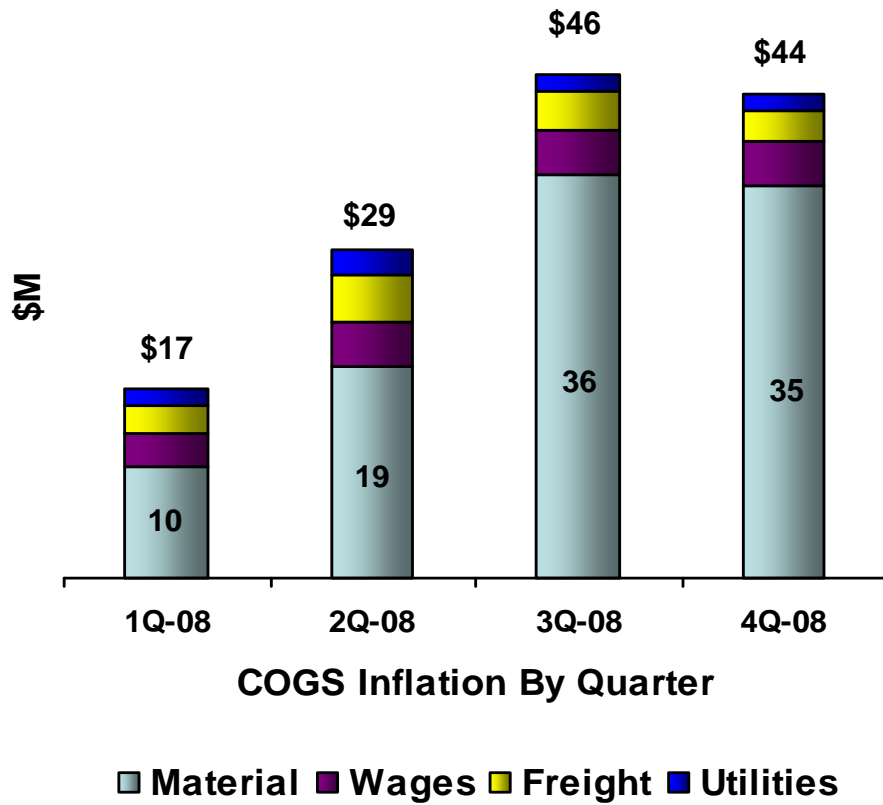
\$ millions



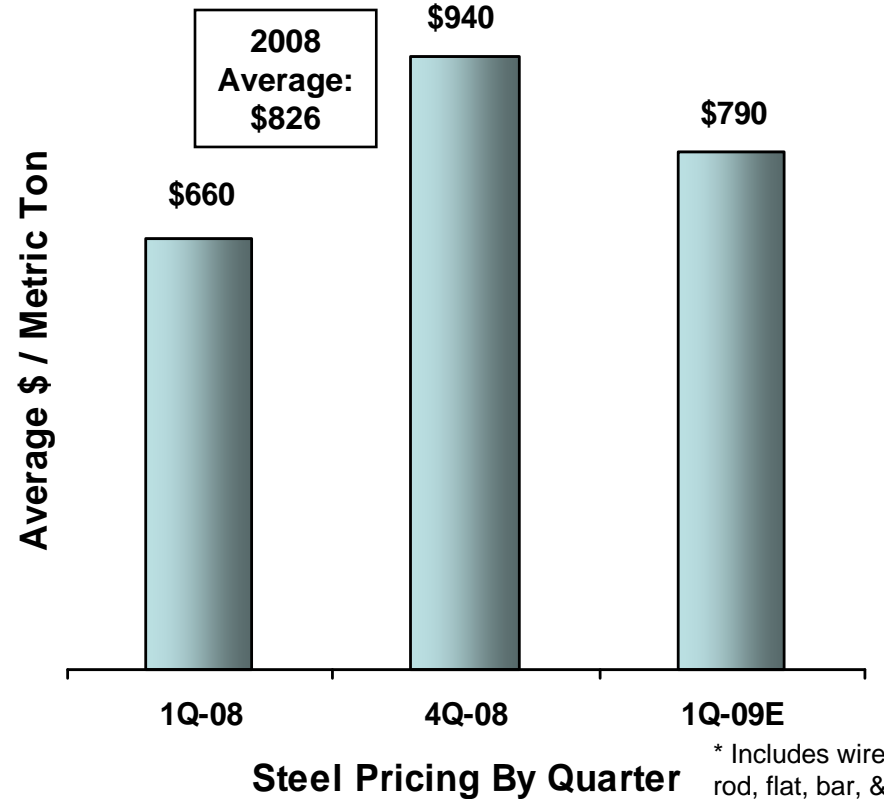
*...Following A Discipline At All Levels Of The Organization*

**Commodity Prices Have Declined Significantly In Recent Months, However...**

## COGS Inflation



## Steel Pricing Snapshot\*



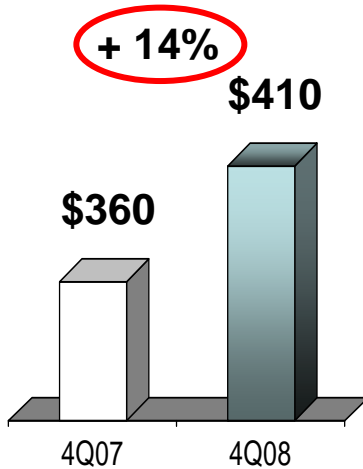
\* Includes wire rod, flat, bar, & plate steel

**...On A Y-O-Y Basis, Inflation Will Be A Reality In Early '09**



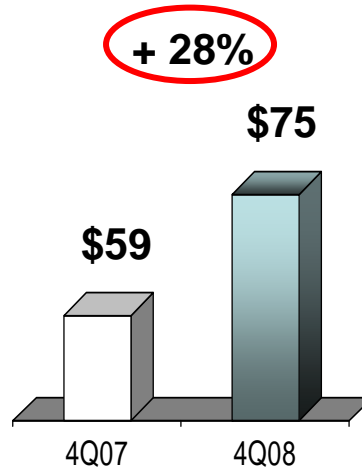
**Strong Revenue Growth And Profit Rate Expansion**

**Revenues**

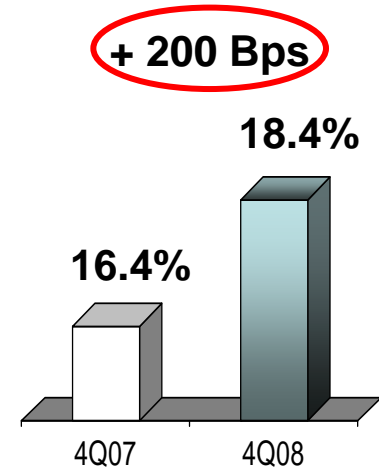


Organic Growth = Flat

**Segment Profit**



**Segment Profit Rate**



**Segment Profit +28% Driven By Acquisitions & Continued Integration Benefits**

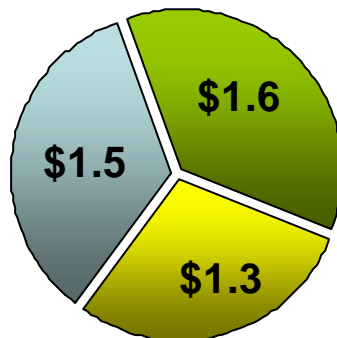
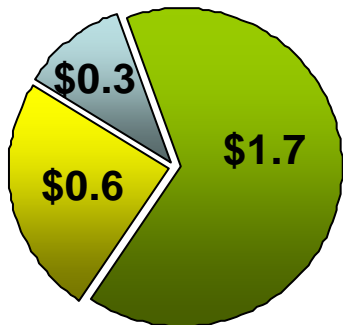
**Convergent Security Solutions (CSS) Revenues +32%**

- Acquisitions Drive Growth In Revenues
- U.S. Systems Integration Margins Expand From Continued Reverse Integration, Mix Towards Monitoring, And Exiting Of Less Profitable Business

**Mechanical Access Solutions (MAS) Revenues +1% As Price Realization Offsets Volume Declines**

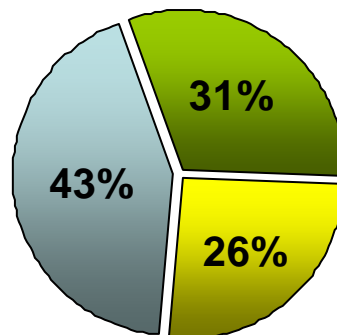
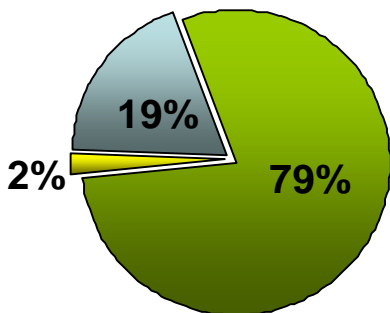
\$ millions

## 2002 - 2008 Revenues



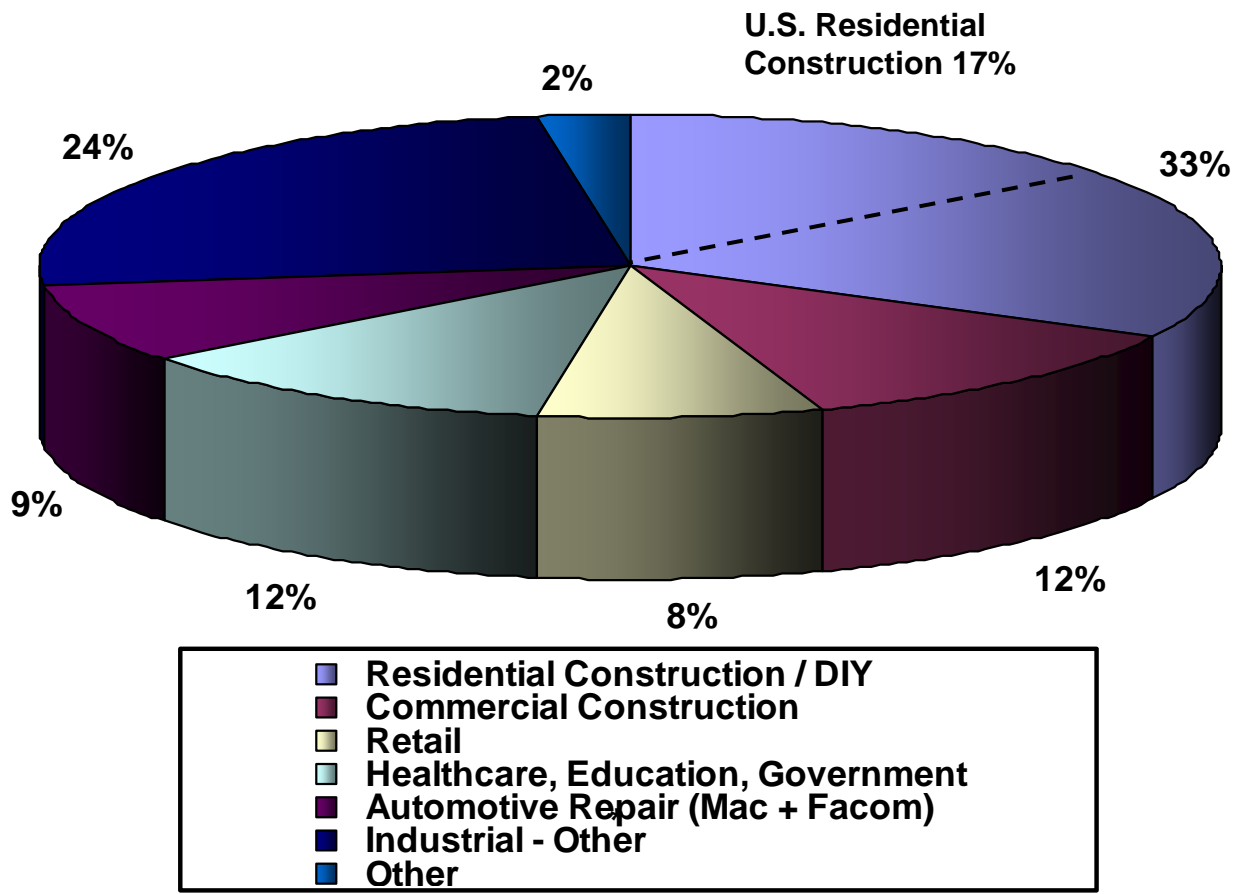
- CDIY
- Industrial
- Security

## 2002 - 2008 OM



***Diversification Of Revenues And Operating Margin Toward Growth Platforms***

# SWK Platform Diversity: End Markets



- Residential Construction / DIY
- Commercial Construction
- Retail
- Healthcare, Education, Government
- Automotive Repair (Mac + Facom)
- Industrial - Other
- Other

\*Industrial – Other includes manufacturing, utilities, distribution, power, rail, oil & gas, etc.

***SWK's Portfolio Transition Provides Strength Through Diversity***

## Performance Negatively Impacted By Certain Key Markets

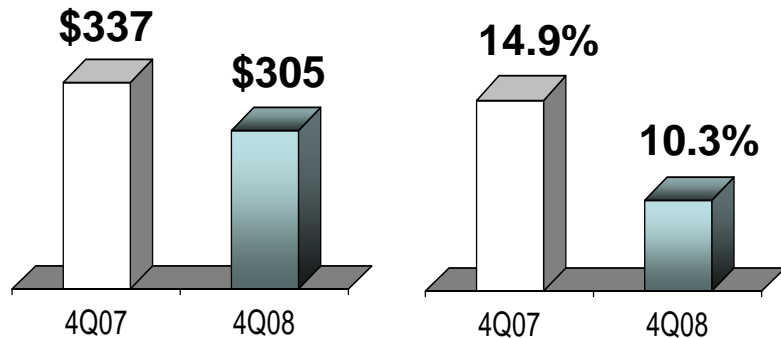
### Industrial

#### Revenues

- 10%

#### Profit Rate

- 470 Bps



Organic Growth = (9%)

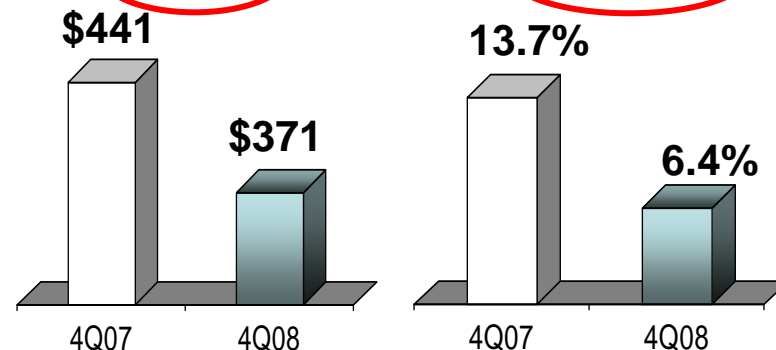
### CDIY

#### Revenues

- 16%

#### Profit Rate

- 730 Bps



Organic Growth = (10%)

#### Industrial & Automotive Repair Tools revenues

- Facom organic revenues declined 8%
- North America revenues adversely impacted by U.S. economic conditions and lower distributor count

#### Engineered Solutions revenues

- Strong growth achieved (+11%) driven by Storage and acquisitions

Segment profit rate declined due to weakness in unit volume

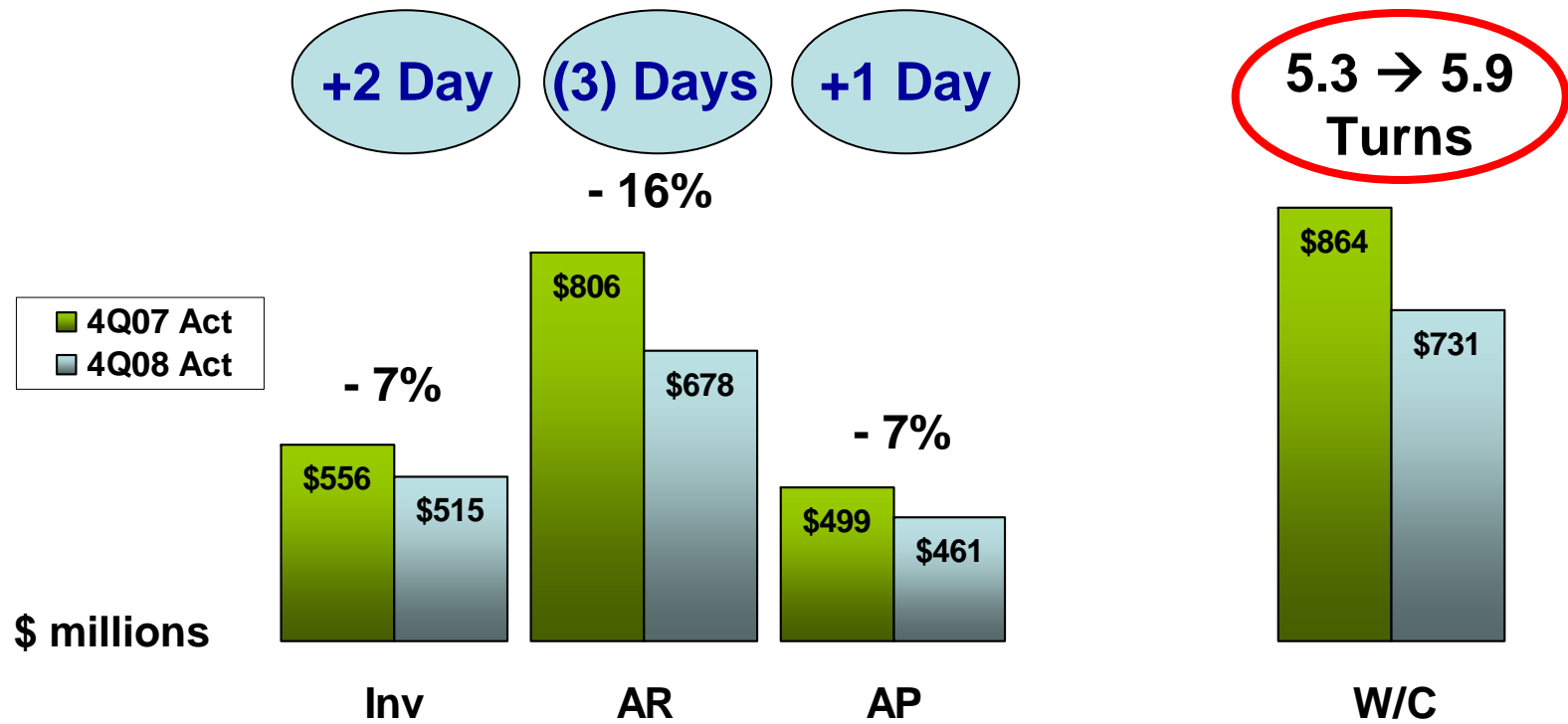
- Price recovery and productivity programs more than offset inflation

Organic revenue declined 10% as softness within U.S. residential construction markets continued

European organic revenues declined as a result of weakness across all major markets

Bostitch margin rate negatively impacted by inflation & volume decline related to continued weakness in U.S. markets

## Working Capital Turns Improve 11% Vs. Prior Year...



4Q07 Act Days	71	64	64
4Q08 Act Days	73	61	65

5.3 Turns
5.9 Turns

**...Demonstrating The Benefits Of The Stanley Fulfillment System**

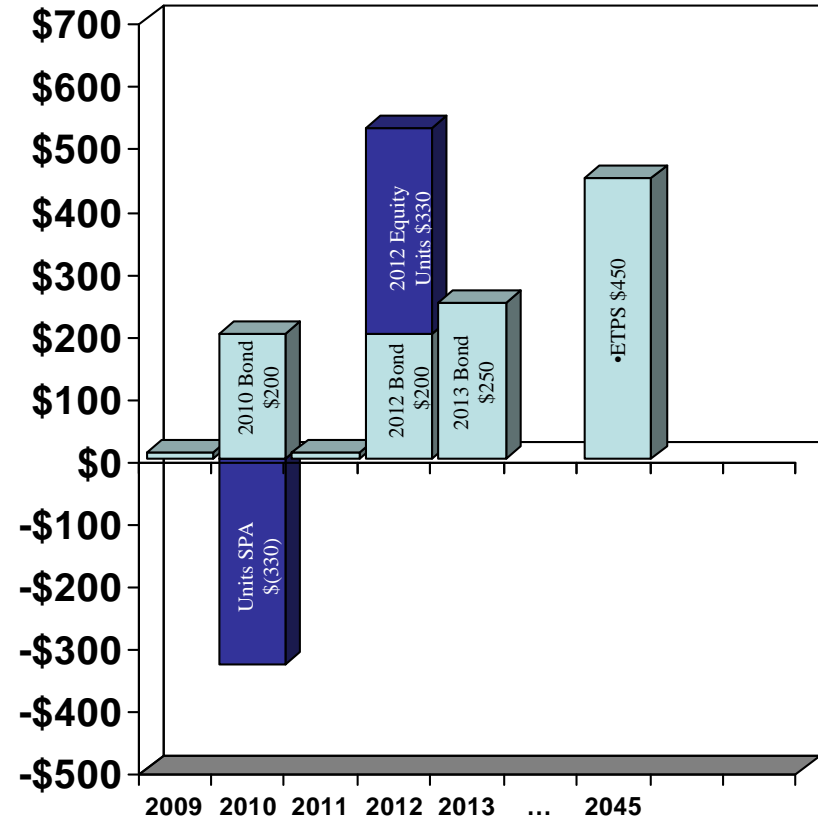
## 4Q Working Capital Contribution Bolstered FCF...

(\$ million)	4Q'08	4Q'07	V\$	2008	2007	V\$
Net Income	1	92	(91)	313	337	(24)
Deprec / Amort	55	42	13	183	162	21
Working Capital	121	86	35	127	31	96
Receivable Sales	6	20	(14)	(4)	21	(25)
Other	20	(22)	42	(59)	(7)	(52)
Operating CF	<b>203</b>	<b>218</b>	<b>(15)</b>	<b>560</b>	<b>544</b>	<b>16</b>
CapEx	(59)	(32)	(27)	(141)	(87)	(54)
Free Cash Flow	<b>144</b>	<b>186</b>	<b>(42)</b>	<b>419</b>	<b>457</b>	<b>(38)</b>

**...Driving '08 Operating Cash Flow Above PY Levels Despite 6% Unit Volume Decline**

- Long Standing Strategy To Remain A/A2/A, A1/P1/F1 Serving SWK Well
- Actions Taken in 2008 To Ensure Ample Liquidity

Debt Maturity Schedule



***Strong Company With A Solid Foundation***

## 2008 Restructuring Actions:

- Headcount reduction of over 2000 employees
- Elimination of management layers
- Closure of 3 plants: Clinton, Quonset, Pittsfield
- Suspension of certain U.S. employee benefits

## 2008 Restructuring and Related Charges:

- \$92 million or \$0.80 per share
- 85% of charges are cash, remainder is non-cash

## 2009 Savings:

- \$140mm due to headcount reduction
- \$55mm related to other actions
- Will yield earnings benefit of \$1.75/share in 2009 and additional carryover of \$0.24/share in 2010



Key Factors	FY 2009 EPS Impact
If Volume Declines 10-12%	<b>(\$2.00 - \$2.25)</b>
If USD Remain At Present Levels Against Major Currencies (90% of Impact in 1H'09)	<b>(\$0.50)</b>
Inflation/Pricing Recovery	<b>Modest Positive Impact</b>
2008 Cost Reduction Program	<b>\$1.75</b>
2009 Restructuring Charges	<b>Approximately 50% of 2008 charges</b>
Accretion From 2008 Acquisitions	<b>\$0.10 - \$0.12</b>

\*This information can be found in the Appendix portion of the 1/28/09 press release.

## Looking Back

- Aggressive and proactive restructuring actions taken throughout 2008 position SWK for growth and stability when the market turns around
- Demonstrated ability to mitigate inflation with pricing actions
- Free cash flow of \$419 million aided by cash generation from working capital
- Proven success of SFS (Stanley Fulfillment System) initiative (5.9 Turns)

## Looking Forward

- Dedicated to take steps needed to maintain upper-tier credit ratings
- No unfunded debt obligations until 2012
- Subject to potential negative impact of fluctuations of currencies
- Continue on path of successful integration of past acquisitions and extract cost/maximize synergies
- Continued focus on SFS in 2009 and beyond

**A Legacy of Quality.**

**STANLEY**<sup>®</sup>

**MAKE SOMETHING GREAT<sup>™</sup>**

**A Future of Growth.**