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STANLEY WORKS  
Form 8-K  
April 26, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): April 26, 2004

The Stanley Works

-----  
(Exact name of registrant as specified in charter)

|  |                             |   |
|--|-----------------------------|---|
| Connecticut  | 1-5244                      | 06-0548860                              |
| -----  | -----                       | -----                                   |
| (State or other<br>jurisdiction of<br>incorporation) | (Commission<br>File Number) | (IRS Employer<br>Identification<br>No.) |

|  |            |
|--|------------|
| 1000 Stanley Drive, New Britain, Connecticut | 06053      |
| -----  | -----      |
| (Address of principal executive offices)     | (Zip Code) |

Registrant's telephone number, including area code: (860) 225-5111  
-----

Not Applicable

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(Former name or former address, if changed since last report)

Exhibit Index is located on Page 4

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Item 7. Financial Statements and Exhibits.  
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- (c) 99.1 Press Release dated April 26, 2004 announcing first quarter 2004 results and providing second quarter and full year 2004 guidance furnished pursuant to Item 12 hereof.

Item 12. In a press release attached to this Form 8-K, the company reported its results for the first quarter of 2004, provided guidance for the second quarter and full year 2004 and elaborated on certain other activities.

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SIGNATURE

Pursuant to the requirements 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

Date: April 26, 2004  
-----

By: /s/ Bruce H. Beatt  
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Name: Bruce H. Beatt  
Title: Vice President, General  
Counsel and Secretary

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EXHIBIT INDEX

Current Report on Form 8-K  
Dated April 26, 2004

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| Exhibit No.<br>----- | Page<br>----- |
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Exhibit 99.1  
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FOR IMMEDIATE RELEASE

Stanley Reports Record 1st Quarter Revenue and Earnings Per Share

Revenue Up 23 percent; Continuing Operations' EPS Totals 70 cents

New Britain, Connecticut, April 26, 2004 ... The Stanley Works (NYSE: SWK) announced that first quarter 2004 net income from continuing operations was \$59

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million (70 cents per fully-diluted share), surpassing the company's estimates of 63-67 cents per fully-diluted share provided on March 16, as strong organic sales growth continued throughout March. These results compare with earnings of \$19 million (22 cents per fully-diluted share) in the first quarter of 2003; such prior year results included pre-tax restructuring costs, impairment charges and other exit costs totaling \$17 million pre-tax, or 13 cents per fully diluted share. Aside from these costs, prior year earnings per fully diluted share were 35 cents.

Net sales from continuing operations were \$779 million, up 23 percent over last year. Excluding the effects of recent acquisitions (CST / Berger, Blick plc and Frisco Bay Industries) sales increased 16 percent. Strong demand continued from home center and mass merchant customers; industrial tool demand benefited from notably improved economic conditions; Security Solutions revenues increased sharply on service-related share gains primarily at national accounts; and both Europe and Asia benefited from currency translations. As a result, double-digit percentage organic sales growth was achieved in nine of thirteen business units, including hand tools, consumer and industrial mechanics tools, fastening systems and Security Solutions.

John F. Lundgren, Chairman and Chief Executive Officer, stated: "Our team delivered a solid start to 2004 by executing our strategy and serving our customers well, at a time when economic conditions are improving. The company is generating double-digit percentage organic growth and supplementing it with accretive acquisitions. The successful sale of our residential entry door business and our strong free cash flow should enable us to achieve our short-term de-leveraging objectives, while positioning us to capitalize on further growth opportunities over the longer term."

Gross profit from continuing operations was \$279 million, or 35.9 percent of sales, versus \$213 million in the prior year. First quarter 2003 included \$4 million of impairment charges and other exit costs related to the termination of the Mac Direct distribution model. Aside from such costs, gross margin was 34.3 percent last year. Thus an improvement of 160bps was realized, attributable to the carryover benefit of 2003 restructuring programs, volume leverage, the inclusion of higher-margin acquired businesses and favorable pricing and product mix. These benefits were partially offset by higher steel costs and other inflation.

Selling, general and administrative ("SG&A") expenses from continuing operations were \$173 million (22.2 percent of sales). Aside from \$10 million of costs

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relating primarily to the exiting of Mac Direct, prior year SG&A expenses were \$158 million, or 24.9 percent of sales. Businesses acquired in 2004 accounted for virtually all of the \$15 million increase in SG&A expenses and the remainder of the business portfolio held SG&A spending levels constant despite the 16 percent organic sales increase; thus an improvement of 270bps was realized.

Operating income was \$107 million versus \$59 million last year and operating margins were 13.7 percent versus 9.4 percent last year, excluding prior year impairment charges and other exit costs referred to above.

Other-net expenses of \$14 million, versus \$7 million last year, increased principally due to \$2 million of legal settlements, \$2 million of incremental amortization of acquired intangibles and \$1 million asset write-off.

On March 2, the company completed the sale of its residential entry door

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business to Masonite International Corporation (NYSE: MHM) for \$162 million. Included in the first quarter results is the resulting after-tax gain from discontinued operations of \$95 million, or \$1.14 per fully diluted share.

The company also announced today that it has changed its segment reporting to align with recent changes in its portfolio of businesses. The company will report the following three segments: Consumer Products, Industrial Tools and Security Solutions. Realignment schedules reflecting sales and operating income for the four quarters of and full year 2003, identifiable assets at the end of 2003 and a listing of business units included in each segment are included as page 11 of this release and can be found in the Investor Relations section of the company's web site at [www.stanleyworks.com](http://www.stanleyworks.com).

In the first quarter of 2004, Consumer Products sales increased 21 percent to \$306 million, due to the aforementioned strength in home center and mass merchant channels in the U.S. and favorable currency impacts in Europe. Operating margin was 15.7 percent versus 12.6 percent last year, due primarily to favorable price, mix and operating leverage from higher sales volumes.

Industrial Tools sales increased 16 percent to \$316 million. Excluding CST/Berger, acquired in the first quarter, Industrial Tools organic sales increased 11 percent to \$303 million. Notably improved economic conditions in a number of the business units - including fastening systems, industrial mechanics tools and tool storage - brought about the improvement. Mac Tools revenues were essentially flat, a strong performance as traditional distributor additions and higher route average sales offset the anticipated decline from last year's Mac Direct exit. Exclusive of \$14 million of impairment charges and exit costs incurred in the prior year, first quarter Industrial Tools operating margin was 9.5 percent vs. 4.1 percent in 2003, due to higher volume and carryover benefits of prior year restructuring.

Security Solutions sales increased 46 percent to \$157 million. Excluding Blick plc and Frisco Bay Industries, acquired in the first quarter, Security Solutions

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organic sales increased 15 percent to \$124 million, on exceptional strength in the supply and service of automatic commercial door systems in Access Technologies. Operating margin increased to 18.4 percent versus 15.3 percent last year, due to higher sales volumes and the impacts of including higher-margin acquired businesses.

Operating cash flows were \$52 million in both the first quarters of 2004 and 2003, as working capital levels were closely managed during this period of strong sales volume growth. Free cash flows before dividends (cash from operations less capital expenditures) were \$44 million in the first quarters of both years, reflecting the cash flow from operations and continued effective management of capital expenditures.

Management also updated earnings estimates for 2004, projecting total sales growth of approximately 20 percent and organic sales growth, aside from the effects of acquisition and divestiture activity, of approximately 10-12 percent in the second quarter of 2004. For the full year 2004, total sales growth of approximately 17 percent, including organic sales growth of approximately 10 percent, are projected.

The company experienced a significant impact from broadly-publicized and unprecedented levels of commodity price inflation (particularly steel) in the first quarter and is actively pursuing price increases across all channels. Such

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efforts are gaining acceptance, but with traditional timing impacts. Steel cost increases will have a more substantial impact in the second quarter and beyond, while offsetting price increases will phase in over the second and subsequent quarters.

Based on these sales and material cost inflation outlooks, the company expects second quarter 2004 earnings from continuing operations to approximate 63-67 cents per fully diluted share, versus 11 cents earned last year, and up 30-40 percent over 48 cents per share earned last year from continuing operations on a basis excluding charges.

Full year 2004 earnings from continuing operations are expected to approximate \$2.75-\$2.85 per fully diluted share versus \$1.14 earned last year, and up 30-35 percent over \$2.10 per share earned from continuing operations last year on a basis excluding charges. The company expects full year 2004 free cash flow to approximate \$250 - \$300 million.

The company has scheduled a conference call with investors for 11am EDT this morning to discuss the information in this release. The call is accessible by telephone at (800) 267-8424 and via the Internet at [www.stanleyworks.com](http://www.stanleyworks.com) by selecting "Investor Relations". A replay will also be available two hours after the call and can be accessed at 800-642-1687 by entering the conference identification number 4970276.

Prior-year reported earnings within this release were supplemented with related amounts and percentages that excluded restructuring costs, impairment charges and other exit costs. Management believes these supplemental financial measures provide useful information by removing the effect of variances in reported

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results that, at that time, were not indicative of fundamental changes in the company's earnings capacity. A full reconciliation with reported amounts is included on page 10.

The Stanley Works, an S&P 500 company, is a worldwide supplier of consumer products, industrial tools and security solutions for professional, industrial and consumer use. More information about The Stanley Works can be found at <http://www.stanleyworks.com>.

Contact: Gerry Gould, V. P. - Investor Relations  
(860) 827-3833 or [ggould@stanleyworks.com](mailto:ggould@stanleyworks.com)

The Stanley Works corporate press releases are available on the company's Internet web site at <http://www.stanleyworks.com>.

### CAUTIONARY STATEMENTS

Under the Private Securities Litigation Reform Act of 1995

Statements in the company's press releases attached to this Current Report on Form 8-K regarding the company's ability to (i) achieve its short-term de-leveraging objectives and position itself to capitalize on further growth opportunities over the longer term; (ii) achieve total sales growth of approximately 20 percent and organic sales growth, aside from the effects of acquisition and divestiture activity, of approximately 10-12 percent in the second quarter of 2004; (iii) achieve full year 2004 total sales growth of approximately 17 percent, including organic sales growth of approximately 10

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percent; (iv) pursue and achieve price increases across all channels; (v) achieve second quarter 2004 earnings from continuing operations of approximately 63-67 cents per fully diluted share; (vi) achieve full year 2004 earnings from continuing operations of approximately \$2.75-\$2.85 per fully diluted share; and (vii) achieve full year 2004 free cash flow of approximately \$250 to \$300 million are forward looking and inherently subject to risk and uncertainty.

The company's ability to deliver the results as described above (the "Results") is based on current expectations and involves inherent risks and uncertainties, including factors listed below and other factors that could delay, divert, or change any of them, and could cause actual outcomes and results to differ materially from current expectations.

The company's ability to deliver the Results is dependent upon (i) the success of the company in integrating its recently completed acquisitions; (ii) the success of the company's efforts to raise prices in order to, among other things, offset the impact of steel and other commodity and material price inflation; (iii) the success of the company's efforts to reduce its workforce and close certain facilities, including the resolution of any labor issues related to such activities, the need to respond to significant changes in product demand while any facility consolidation is in process and other

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unforeseen events; (iv) continued improvements in productivity and cost reductions; (v) the continued improvement in the payment terms under which the company buys and sells goods, materials and products; (vi) continued access to capital markets and (vii) the recovery of sales volume attributable to the company's sale of its residential entry doors business.

The company's ability to deliver the Results is also dependent upon (i) the continued success of the company's marketing and sales efforts, including the company's ability to recruit and retain an adequate sales force; (ii) the continued success of The Home Depot and Wal-Mart sales initiatives as well as other programs to stimulate demand for company products; (iii) the success of recruiting programs and other efforts to maintain or expand overall Mac Tools truck count versus prior years; (iv) the ability of the sales force to adapt to changes made in the sales organization and achieve adequate customer coverage; (v) the ability of the company to fulfill increasing demand for its products; (vi) the ability to continue successfully managing and defending claims and litigation; and (vii) the absence of increased pricing pressures from customers and competitors and the ability to defend market share in the face of price competition.

The company's ability to achieve the Results will also be affected by external factors. These external factors will also include pricing pressure and other changes within competitive markets, the continued consolidation of customers in consumer channels, inventory management pressures on the company's customers, increasing competition, changes in trade, monetary, tax and fiscal policies and laws, changes in steel and other commodities and materials, inflation, currency exchange fluctuations, the impact of dollar/foreign currency exchange and interest rates on the competitiveness of products and the company's debt program, the strength of the U.S. Economy and the impact of events that cause or may cause disruption in the company's distribution and sales networks such as war, terrorist activities, political unrest and recessionary or expansive trends in the economies of the world in which the company operates.

The company undertakes no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date hereof.



THE STANLEY WORKS AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited, Millions of Dollars Except Per Share Amounts)

|   | First Quarter |          |
|---|---------------|----------|
|   | 2004          | 2003     |
| NET SALES   | \$ 778.6      | \$ 632.2 |
| COSTS AND EXPENSES  |               |          |
| Cost of sales   | 499.2         | 418.8    |
| Selling, general and administrative   | 172.5         | 167.8    |
| Interest - net  | 8.0           | 7.8      |
| Other - net   | 14.1          | 7.4      |
| Restructuring charges   | -             | 3.1      |
|   | 693.8         | 604.9    |
| EARNINGS FROM CONTINUING OPERATIONS<br>BEFORE INCOME TAXES  | 84.8          | 27.3     |
| Income taxes  | 26.3          | 8.3      |
| NET EARNINGS FROM CONTINUING OPERATIONS   | 58.5          | 19.0     |
| Earnings from discontinued operations (including<br>gain on disposal of \$147.2 million) before<br>income taxes | 142.6         | 0.2      |
| Income taxes on discontinued operations   | 47.6          | -        |
| NET EARNINGS FROM DISCONTINUED OPERATIONS   | 95.0          | 0.2      |
| NET EARNINGS  | \$ 153.5      | \$ 19.2  |
| BASIC EARNINGS PER SHARE OF COMMON STOCK  |               |          |
| Continuing operations   | \$ 0.72       | \$ 0.22  |
| Discontinued operations   | 1.16          | \$ -     |
| TOTAL basic earnings per share of common stock  | \$ 1.88       | \$ 0.22  |
| DILUTED EARNINGS PER SHARE OF COMMON STOCK  |               |          |

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|  |         |         |
|--|---------|---------|
| Continuing operations                            | \$ 0.70 | \$ 0.22 |
| Discontinued Operations                          | 1.14    | -       |
|  | -----   | -----   |
| TOTAL diluted earnings per share of common stock | \$ 1.84 | \$ 0.22 |
| DIVIDENDS PER SHARE                              | \$ 0.26 | \$ 0.26 |
|  | =====   | =====   |
| AVERAGE SHARES OUTSTANDING (in thousands)        |         |         |
| Basic  | 81,628  | 87,815  |
|  | =====   | =====   |
| Diluted  | 83,392  | 88,478  |
|  | =====   | =====   |

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THE STANLEY WORKS AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited, Millions of Dollars)

|                                     | April 3, 2004 | January 3, 2004 |
|-------------------------------------|---------------|-----------------|
|                                     | -----         | -----           |
| ASSETS                              |               |                 |
| Cash and cash equivalents           | \$ 192.5      | \$ 204.4        |
| Accounts receivable                 | 572.9         | 482.4           |
| Inventories                         | 397.7         | 377.1           |
| Other current assets                | 107.1         | 98.9            |
| Assets held for sale                | 5.0           | 37.9            |
|                                     | -----         | -----           |
| TOTAL current assets                | 1,275.2       | 1,200.7         |
|                                     | -----         | -----           |
| Property, plant and equipment       | 421.5         | 413.3           |
| Goodwill and other intangibles      | 876.2         | 643.3           |
| Other assets                        | 205.3         | 166.5           |
|                                     | -----         | -----           |
|                                     | \$ 2,778.2    | \$ 2,423.8      |
|                                     | =====         | =====           |
| LIABILITIES AND SHAREOWNERS' EQUITY |               |                 |
| Short-term borrowings               | \$ 240.1      | \$ 157.7        |
| Accounts payable                    | 281.3         | 240.2           |
| Accrued expenses                    | 418.8         | 326.4           |
| Liabilities held for sale           | -             | 29.2            |
|                                     | -----         | -----           |
| TOTAL current liabilities           | 940.2         | 753.5           |
|                                     | -----         | -----           |
| Long-term debt                      | 547.3         | 534.5           |
| Other long-term liabilities         | 286.6         | 277.2           |
| Shareowners' equity                 | 1,004.1       | 858.6           |
|                                     | -----         | -----           |
|                                     | \$ 2,778.2    | \$ 2,423.8      |
|                                     | =====         | =====           |

THE STANLEY WORKS AND SUBSIDIARIES  
SUMMARY OF CASH FLOW ACTIVITY  
(Unaudited, Millions of Dollars)

|   | First Quarter |         |
|---|---------------|---------|
|   | 2004          | 2003    |
|   | -----         | -----   |
| OPERATING ACTIVITIES                              |               |         |
| Net earnings                                      | \$153.5       | \$ 19.2 |
| Depreciation and amortization                     | 23.0          | 22.6    |
| Restructuring charge                              | -             | 3.1     |
| Changes in working capital                        | (15.9)        | (20.5)  |
| Other   | (108.5)       | 27.3    |
|   | -----         | -----   |
| Net cash provided by operating activities         | 52.1          | 51.7    |
| INVESTING AND FINANCING ACTIVITIES                |               |         |
| Capital and software expenditures                 | (8.2)         | (7.5)   |
| Proceeds from sale of business                    | 161.9         | -       |
| Business acquisitions, net                        | (250.1)       | (16.4)  |
| Cash dividends on common stock                    | (21.2)        | (22.2)  |
| Other   | 53.6          | 28.7    |
|   | -----         | -----   |
| Net cash used in investing activities             | (64.0)        | (17.4)  |
| Increase (Decrease) in Cash and Cash Equivalents  | (11.9)        | 34.3    |
| Cash and Cash Equivalents, Beginning of Period    | 204.4         | 121.7   |
|   | -----         | -----   |
| Cash and Cash Equivalents, End of Period          | \$192.5       | \$156.0 |
|   | =====         | =====   |
| Free Cash Flow Computation                        |               |         |
| Operating cash flow                               | \$ 52.1       | \$ 51.7 |
| Less: capital and software expenditures           | (8.2)         | (7.5)   |
|   | -----         | -----   |
| Free cash flow from operations (before dividends) | \$ 43.9       | \$ 44.2 |
|   | =====         | =====   |

Free cash flow is defined as cash flow from operations less capital investments; the company believes this is an important measure of its liquidity, as well as its ability to fund future growth and to provide a return to the shareowners.

THE STANLEY WORKS AND SUBSIDIARIES  
 BUSINESS SEGMENT INFORMATION  
 (Unaudited, Millions of Dollars)

|                         | First Quarter |                 |
|-------------------------|---------------|-----------------|
|                         | 2004          | 2003            |
|                         | -----         | -----           |
| BUSINESS SEGMENTS       |               |                 |
| Net Sales               |               |                 |
| Consumer products       | \$ 306.0      | \$ 253.2        |
| Industrial tools        | 316.0         | 271.5           |
| Security Solutions      | 156.6         | 107.5           |
|                         | -----         | -----           |
| Consolidated            | \$ 778.6      | \$ 632.2        |
|                         | =====         | =====           |
| Operating Profit (Loss) |               |                 |
| Consumer products       | \$ 48.0       | \$ 31.8         |
| Industrial tools        | 30.1          | (2.7)           |
| Security Solutions      | 28.8          | 16.5            |
|                         | -----         | -----           |
| Consolidated            | \$ 106.9      | \$ 45.6         |
|                         | =====         | =====           |
| Assets                  |               |                 |
|                         | April 3, 2004 | January 3, 2004 |
|                         | -----         | -----           |
| Consumer products       | \$ 804.3      | \$ 792.5        |
| Industrial tools        | 879.0         | 814.5           |
| Security Solutions      | 877.6         | 554.4           |
| Discontinued operations | -             | 33.0            |
| Corporate assets        | 217.3         | 229.4           |
|                         | -----         | -----           |
| Consolidated            | \$ 2,778.2    | \$ 2,423.8      |
|                         | =====         | =====           |

THE STANLEY WORKS AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND BUSINESS SEGMENT INFORMATION  
RECONCILIATION TO GAAP EARNINGS  
FIRST QUARTER 2004 vs. 2003  
(Unaudited, Millions of Dollars Except Per Share Amounts)

|  | 2004  |                            |         |                |
|--|---|----------------------------|---------|----------------|
|  | Pro-forma Excludes<br>Charges, Includes<br>Discontinued<br>Operations | Discontinued<br>Operations | Charges | Reported       |
|  | -----   | -----                      | -----   | -----          |
| Net sales  | \$ 804.6  | \$ 26.0                    | \$ -    | \$ 778.6       |
| Cost of sales  | 520.9   | 21.7                       | -       | 499.2          |
|  | -----   | -----                      | -----   | -----          |
| Gross Margin   | 283.7<br>35.3%  | 4.3                        | -       | 279.4<br>35.9% |
| Selling, general and<br>administrative                     | 176.8   | 4.3                        | -       | 172.5          |
|  | -----   | -----                      | -----   | -----          |
|  | 22.0%   |                            |         | 22.2%          |
| Subtotal   | 106.9<br>13.3%  | -                          | -       | 106.9<br>13.7% |
| Interest, net  | 8.1   | 0.1                        | -       | 8.0            |
| Other, net   | (128.6)   | (142.7)                    | -       | 14.1           |
| Restructuring and asset<br>impairment charges              | -   | -                          | -       | -              |
|  | -----   | -----                      | -----   | -----          |
| Earnings from continuing operations<br>before income taxes | 227.4   | 142.6                      | -       | 84.8           |
| Income taxes   | 73.9  | 47.6                       | -       | 26.3           |
|  | -----   | -----                      | -----   | -----          |
|  | 32.5%   |                            |         | 31.0%          |
| Net earnings from<br>continuing operations                 | \$ 153.5  | \$ 95.0                    | \$ -    | \$ 58.5        |
| Earnings from<br>discontinued operations                   | -   | (142.6)                    | -       | 142.6          |
| Income taxes on<br>discontinued operations                 | -   | (47.6)                     | -       | 47.6           |
|  | -----   | -----                      | -----   | -----          |
| Net earnings from<br>discontinued operations               | -   | (95.0)                     | -       | 95.0           |

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|              |          |       |       |          |
|--------------|----------|-------|-------|----------|
| Net earnings | \$ 153.5 | \$ -  | \$ -  | \$ 153.5 |
|              | =====    | ===== | ===== | =====    |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Average shares<br>outstanding (diluted,<br>in thousands) | 83,392 | 83,392 | 83,392 | 83,392 |
|--|--------|--------|--------|--------|

|                                 |         |       |       |         |
|---------------------------------|---------|-------|-------|---------|
| Earnings per share<br>(diluted) | \$ 1.84 | \$ -  | \$ -  | \$ 1.84 |
|                                 | =====   | ===== | ===== | =====   |

BUSINESS SEGMENTS

Net Sales

|                    |          |         |       |          |
|--------------------|----------|---------|-------|----------|
| Consumer           | \$ 332.0 | \$ 26.0 | \$ -  | \$ 306.0 |
| Industrial         | 316.0    | -       | -     | 316.0    |
| Security Solutions | 156.6    | -       | -     | 156.6    |
|                    | -----    | -----   | ----- | -----    |
| Consolidated       | \$ 804.6 | \$ 26.0 | \$ -  | \$ 778.6 |
|                    | =====    | =====   | ===== | =====    |

Subtotal

|                    |          |       |       |          |
|--------------------|----------|-------|-------|----------|
| Consumer           | \$ 48.0  | \$ -  | \$ -  | \$ 48.0  |
| Industrial         | 30.1     | -     | -     | 30.1     |
| Security Solutions | 28.8     | -     | -     | 28.8     |
|                    | -----    | ----- | ----- | -----    |
| Consolidated       | \$ 106.9 | \$ -  | \$ -  | \$ 106.9 |
|                    | -----    | ----- | ----- | -----    |

|   |         |         |       |       |
|---|---------|---------|-------|-------|
| Interest, net                                 | 8.1     | 0.1     | -     | 8.0   |
| Other, net                                    | (128.6) | (142.7) | -     | 14.1  |
| Restructuring and asset<br>impairment charges | -       | -       | -     | -     |
|   | -----   | -----   | ----- | ----- |

|   |          |          |       |         |
|---|----------|----------|-------|---------|
| Net earnings from<br>continuing operations<br>before income taxes | \$ 227.4 | \$ 142.6 | \$ -  | \$ 84.8 |
|   | =====    | =====    | ===== | =====   |

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THE STANLEY WORKS AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND BUSINESS SEGMENT INFORMATION  
RECONCILIATION TO GAAP EARNINGS  
FIRST QUARTER 2004 vs. 2003  
(Unaudited, Millions of Dollars Except Per Share Amounts)

|  | 2003  |                            |                    |                  |
|--|---|----------------------------|--------------------|------------------|
|  | Pro-forma Excludes<br>Charges, Includes<br>Discontinued<br>Operations | Discontinued<br>Operations | Charges            | Reported         |
| Net sales  | \$ 666.2  | \$ 34.0                    | \$ -               | \$ 632.2         |
| Cost of sales  | 444.1   | 28.9                       | 3.6                | 418.8            |
| Gross Margin   | 222.1<br>33.3%  | 5.1                        | (3.6)              | 213.4<br>33.8%   |
| Selling, general and<br>administrative                     | 162.2<br>24.3%  | 4.6                        | 10.2               | 167.8<br>26.5%   |
| Subtotal   | 59.9<br>9.0%  | 0.5                        | (13.8)             | 45.6<br>7.2%     |
| Interest, net  | 7.9   | 0.1                        | -                  | 7.8              |
| Other, net   | 7.6   | 0.2                        | -                  | 7.4              |
| Restructuring and asset<br>impairment charges              | -   | -                          | 3.1                | 3.1              |
| Earnings from continuing operations<br>before income taxes | 44.4  | 0.2                        | (16.9)             | 27.3             |
| Income taxes   | 13.5  | -                          | (5.2)              | 8.3              |
| Net earnings from continuing<br>operations                 | \$ 30.9   | \$ 0.2                     | \$ (11.7)          | \$ 19.0          |
| Earnings from<br>discontinued operations                   | -   | (0.2)                      | -                  | 0.2              |
| Income taxes on<br>discontinued operations                 | -   | -                          | -                  | -                |
| Net earnings from discontinued<br>Operations               | -   | (0.2)                      | -                  | 0.2              |
| Net earnings   | \$ 30.9<br>=====  | \$ -<br>=====              | \$ (11.7)<br>===== | \$ 19.2<br>===== |

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|   |                   |                  |                    |                   |
|---|-------------------|------------------|--------------------|-------------------|
| Average shares<br>outstanding (diluted,<br>in thousands)          | 88,478            | 88,478           | 88,478             | 88,478            |
| Earnings per share<br>(diluted)                                   | \$ 0.35<br>=====  | \$ -<br>=====    | \$ (0.13)<br>===== | \$ 0.22<br>=====  |
| BUSINESS SEGMENTS   |                   |                  |                    |                   |
| Net Sales   |                   |                  |                    |                   |
| Consumer  | \$ 287.2          | \$ 34.0          | \$ -               | \$ 253.2          |
| Industrial  | 271.5             | -                | -                  | 271.5             |
| Security Solutions  | 107.5             | -                | -                  | 107.5             |
|   | -----             | -----            | -----              | -----             |
| Consolidated  | \$ 666.2<br>===== | \$ 34.0<br>===== | \$ -<br>=====      | \$ 632.2<br>===== |
| Subtotal  |                   |                  |                    |                   |
| Consumer  | \$ 32.3           | \$ 0.5           | \$ -               | \$ 31.8           |
| Industrial  | 11.1              | -                | (13.8)             | (2.7)             |
| Security Solutions  | 16.5              | -                | -                  | 16.5              |
|   | -----             | -----            | -----              | -----             |
| Consolidated  | \$ 59.9<br>-----  | \$ 0.5<br>-----  | \$ (13.8)<br>----- | \$ 45.6<br>-----  |
| Interest, net   | 7.9               | 0.1              | -                  | 7.8               |
| Other, net  | 7.6               | 0.2              | -                  | 7.4               |
| Restructuring and asset<br>impairment charges                     | -<br>-----        | -<br>-----       | 3.1<br>-----       | 3.1<br>-----      |
| Net earnings from<br>continuing operations<br>before income taxes | \$ 44.4<br>=====  | \$ 0.2<br>=====  | \$ (16.9)<br>===== | \$ 27.3<br>=====  |

(a) Changes in previously reported amounts are due to reclassifications related to the discontinued operations of the entry door business.

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THE STANLEY WORKS AND SUBSIDIARIES  
BUSINESS SEGMENT TRENDS  
(Unaudited, Millions of Dollars)

| Net | Reported<br>Operating | Charges | Operating Profit<br>Excluding Charges |
|-----|-----------------------|---------|---------------------------------------|
|-----|-----------------------|---------|---------------------------------------|



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|                     | Sales    | Profit  | (a)     | \$      | %     |
|---------------------|----------|---------|---------|---------|-------|
|                     | -----    | -----   | -----   | -----   | ----- |
| First Quarter 2003  |          |         |         |         |       |
| Consumer products   | \$ 253.2 | \$ 31.8 | \$ -    | \$ 31.8 | 12.6% |
| Industrial tools    | 271.5    | (2.7)   | 13.8    | 11.1    | 4.1   |
| Security Solutions  | 107.5    | 16.5    | -       | 16.5    | 15.3  |
| Consolidated        | \$ 632.2 | \$ 45.6 | \$ 13.8 | \$ 59.4 | 9.4%  |
| Second Quarter 2003 |          |         |         |         |       |
| Consumer products   | \$ 259.7 | \$ 27.6 | \$ 3.5  | \$ 31.1 | 12.0% |
| Industrial tools    | 276.4    | 1.7     | 18.3    | 20.0    | 7.2   |
| Security Solutions  | 116.5    | 22.1    | 1.2     | 23.3    | 20.0  |
| Consolidated        | \$ 652.6 | \$ 51.4 | \$ 23.0 | \$ 74.4 | 11.4% |
| Third Quarter 2003  |          |         |         |         |       |
| Consumer products   | \$ 278.5 | \$ 39.3 | \$ -    | \$ 39.3 | 14.1% |
| Industrial tools    | 264.4    | 18.7    | 0.4     | 19.1    | 7.2   |
| Security Solutions  | 122.7    | 25.9    | -       | 25.9    | 21.1  |
| Consolidated        | \$ 665.6 | \$ 83.9 | \$ 0.4  | \$ 84.3 | 12.7% |
| Fourth Quarter 2003 |          |         |         |         |       |
| Consumer products   | \$ 315.4 | \$ 46.6 | \$ 0.1  | \$ 46.7 | 14.8% |
| Industrial tools    | 285.3    | 7.2     | 19.4    | 26.6    | 9.3   |
| Security Solutions  | 127.0    | 20.3    | 0.1     | 20.4    | 16.1  |
| Consolidated        | \$ 727.7 | \$ 74.1 | \$ 19.6 | \$ 93.7 | 12.9% |

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|                    |            |          |         |          |       |
|--------------------|------------|----------|---------|----------|-------|
| Full Year 2003     |            |          |         |          |       |
| Consumer products  | \$ 1,106.8 | \$ 145.3 | \$ 3.6  | \$ 148.9 | 13.5% |
| Industrial tools   | 1,097.6    | 24.9     | 51.9    | 76.8     | 7.0   |
| Security Solutions | 473.7      | 84.8     | 1.3     | 86.1     | 18.2  |
| Consolidated       | \$ 2,678.1 | \$ 255.0 | \$ 56.8 | \$ 311.8 | 11.6% |
| First Quarter 2004 |            |          |         |          |       |
| Consumer products  | \$ 306.0   | \$ 48.0  | \$ -    | \$ 48.0  | 15.7% |
| Industrial tools   | 316.0      | 30.1     | -       | 30.1     | 9.5   |
| Security Solutions | 156.6      | 28.8     | -       | 28.8     | 18.4  |
| Consolidated       | \$ 778.6   | \$ 106.9 | \$ -    | \$ 106.9 | 13.7% |

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In the first quarter of 2004 the company changed its segments to align with recent changes in its portfolio of businesses. The Consumer Products segment includes the hand tools, consumer mechanics tools and storage, hardware and home decor businesses. Industrial Tools is comprised of Mac Tools, the Proto mechanics tools business, fastening systems, storage systems (Vidmar), specialty tools, assembly technologies, hydraulic tools and CST Berger. The Security Solutions segment includes newly acquired Blick and Frisco Bay, along with Best Access and access technologies.

(a) The company incurred charges in 2003 pertaining to the exit of the Mac Direct retail channel, closure of a U.S. distribution facility and other exit activities, as well as compensation and benefit costs associated with the former CEO's retirement.