FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, my name is Carly and I will be your conference operator today. At this time I would like to welcome everyone to The Stanley Works second quarter results conference call. After the speaker's remarks there will be a question-and-answer session. (OPERATOR INSTRUCTIONS). Thank you.

I would now like to turn the call over to our host, Mr. Greg Waybright. Sir, you may begin your conference.

Greg Waybright - *The Stanley Works - Interim VP of IR*

Thanks, Carly, it is actually Greg, but I have been called worse. Good morning to everyone. John Lundgren, our Chairman and CEO, Jim Loree, and a special guest, Tony Byerly, who is the Chief Operating Officer of our North American Conversion Security Business. Tony will talk to us about the Sonitrol acquisition during the presentation.

There are a few recent press releases that I would like to mention. One relates to our second quarter results, which was issued last night. The others relate to our second quarter dividend increase, which was our 41st consecutive annual increase. The other releases speak to the completion of the Sonitrol and Xmark acquisitions, and the announcement naming Brett Bontrager a Corporate Executive Officer. These releases are available on our website.

Today's presentation is also available on our site, and we will refer to these charts during the call. John and Jim will review Stanley's second quarter results, and Tony, as I mentioned, will speak to the Sonitrol acquisition, and then we will have a Q&A session. The entire call is expected to last approximately one hour. A replay of the call will be available beginning at 2:00 p.m., and the replay number is 800-642-1687, and the access code, which is in the press release, is 45127121, and please feel free to call me with any questions at 860-827-3544.

Just a couple of quick announcements before we proceed, one is a reminder that we issue an/our update earnings guidance on an annual basis in our press release at the beginning of each quarter, and we cannot comment on such guidance thereafter.

If our guidance changes materially, we will issue a press release and conduct a conference call. And secondly, another reminder that certain statements made during today's discussion by the various Stanley participants are forward-looking statements. They are based on assumptions of future events that may not prove to be accurate, and as such they involve risk and uncertainty. Actual results may differ materially from those expected or implied, so we direct you to the cautionary statements in our Form 8-K which we filed with yesterday's press release, and in our recent 34-Act Filing. I will now turn the call over to John Lundgren.

John Lundgren - *The Stanley Works - Chairman, CEO*

Thanks, Greg. Good morning, everybody. First just a couple of highlights from a very busy second quarter at Stanley. Earnings of $1.05 were up 4%, excluding the portfolio charges and related business closures, that amounted to about $0.10, that were detailed in the press release, and in fact a walk between continued operations - - continuing operations and discontinued operations is also contained within the press release. Revenues grew 5% on the basis of currency and acquisitions. We did experience reasonably good organic growth in Europe and in our security business, excluding hardware, and we'll come on to that. That was offset by continued weakness in U.S. markets in general, and residential construction markets in particular. The gross margin was relatively flat, consistent with the prior year.

We have got good pricing and productivity to offset the inflation as well as impact of the lower volume. Jim is going to give you a detailed walk, but right now we're estimating 2008 inflation at approximately $150 million for the year, and prior to the year beginning, that number was between 60 and 80 was our estimate, so that's the magnitude of the increase. We are doing better than in past years in recovering that inflation with price. We're estimating approximately 90% recovery, but that still does leave a gap that we need to fill with productivity improvements in order to ensure that margins don't suffer.

Cash flow is slightly ahead of prior years, excluding the impact of a receivables securitization facility termination. That was about $17 million, understandably unwinding that arrangement. CDIY revenue, all in was up 4%, Europe was 7% organically, profit rate was maintained, operating margin at 14.6%, and that's despite the inflation and the volume pressure we're experiencing around the world. And within our industrial segment, strong sales growth, 12%, as they say security up 7%, profit rate at 18.7%, excluding hardware, but still quite profitable, then including the impact of a lost hardware business, that was down 60 basis points less at 18.1.

Looking at the results on the next chart, specifically zeroing in on the earnings picture, virtually all of these numbers are contained in the press release. On a continuing ops basis, $0.98 to $0.95, on the basis in which we began the year and provided annual guidance, growing $1.01 up to $1.05, so a 5% increase on top of a 6% increase in the first quarter. Operating margin down slightly. Tax rate up about 40 basis points, o a little bit of a head wind there, and the share count reflects the approximately $200 million, of buy-backs that took place between the fourth quarter '07 and January '08, so all in a 4% improvement in earnings on an apples-to-apples basis, highlighted there in the box as well as outlined in detail our press release.

Looking at revenue, 5% increase, primarily in the benefit of acquisitions and foreign exchange. You see revenues at $1.154 billion, up $58 million, the sources of growth, in essence organic was flat, as 3% volume decline on a global basis was offset by 3% price improvement. 4% from currency, 1% from acquisitions, leading to the 5% that you see in two or three different places. Looking within the segments organically, you see CDIY down 1%, as 4% volume decline is almost fully mitigated by 3% price increase, the total 4% growth, of course, that's the difference between organic and FX which we do not include in our organic growth reporting.

Industrial was up 2% organically, volume flat on a global basis, and price 2%, the rest being currency, and security down 2% on a comparative basis, with volume down 5%, price up 3%. Again, importantly, we have talked to the hardware. You will recall we discontinued business with one of our larger retail customers. That was announced in the second quarter of '07. It will not anniversary until the fourth quarter of '08. And that's about $12.5 to $15 million a quarter of revenue, negative head wind, if you will.

Excluding that, good solid growth in security, total 7% of which 4% was organic. Given the magnitude of that number, we do think it's important to point it out, because it was a conscious business decision, and a mutual decision with us and a large customer. So simply said, revenues were subdued by weak U.S. market conditions and we were flat in a down market. We think a pretty good accomplishment.

Looking on a geographical basis, it's clear from the map and it's a busy chart, but we think there is a lot of good important information on it, that our diversification and the fact that a significantly larger percentage of our revenues are outside the U.S. than as little as three years ago, is having tremendous benefit. That being said, perhaps not as much benefit as is perceived, based on some of the conversations we have had with both analysts and investors in the last several weeks or months. Zeroing in on the U.S., middle of the left, in total, down 2%, this is global Stanley, all businesses, and organically down 4%, and that represents 56% of Stanley Works's total volume. Canada is up 7% - - sorry it's up 11% in total, organically 1% That's all currency - - overwhelmingly currency of course, and that represents about 7% of total Stanley revenue.

Latin America, strong on a organic basis, as well as a total basis. It represents only 3% of Stanley's volume, but good volume growth as well as volume growth, price achievement in Latin America. Europe, very interesting, and I'm going to give you a little more granularity in a minute on Europe, but in total up 15%, organically 3%, and that represents about 30% of our total revenues. Asia up 40%, 32% of which is organic off a low base, but we're gaining tremendous traction in the Asian markets in general, and Mainland China in particular, and Australia relatively flat on a organic basis down 1%, total up 12%, and Australia represents 2% of Stanley's volume. So Europe is about twice as big in terms of absolute terms, as it was three years ago, and it's growing nicely, as well as Latin America and Asia, up significantly from a lower base, which is really helping our results, and in a sense validating the focus on geographic as well as business mix-shift in our portfolio.

The next chart is something you haven't seen from us in the past, but the recent dialogue that Jim and I and Greg, in fact, have had with both analysts and investors, has focused a lot on the state of the European economy in general as well as our European business in particular. So we thought it would be helpful to put together this chart or just some information all on one page, and it's virtually all available from public sources. But just starting at the top left, you see the last four quarters of European - - Western European GDP growth, at between 2 and 3%, 2.9%,2.9% falling to 2.5%, falling to 2.3%. So not a medioric decline, but certainly far from robust.

The color chart, if you will, are just various geographies, what's shaded in green, call them emerging former Eastern European markets, where GDP growth is above 3%. Those markets in total represent only 3% of Stanley's revenues. The yellow shaded areas are markets that are, I'll say, traditional Western European markets, with the few exceptions in red that are growing at 1% to 3%, and those markets a you see them, primarily France, Spain, U.K., Germany, represent about 23% of Stanley's revenues, and they are growing at less than 3% per year in terms of GDP, up until most recently. And in the areas in red, Hungary, Italy, Ireland, Portugal and others, representing 4% of our revenues are growing at less than 1%.

Over on the right, those are not randomly selected. Germany, of course is one of the larger economies in Europe, but it is not a large contributor to Stanley revenues. Those are Stanley's four largest markets in Europe. Let's just take a look at the state of those markets. Housing in the U.K., starts are down 27% year to date. It is the worst market since 1945.

The DIY business, the large home centers, not dissimilar to the home center businesses in the U.S., are down 3% to 4%, so a third to half the rate that U.S. home centers that have thus far reported are down. And auto and industrial in the U.K. are flat to slightly down. In France, the economy is holding up better than most European countries. Construction is solid, but it is slowing. DIY down about half the rate of the U.K., and about one fifth the rate of the U.S. Auto repair, flat to down slightly, and industry at this stage remains positive, at plus-low single digits, but it's flattening.

Italy, less healthy with construction down, DIY flat, industrial is flat as well. Automotive down about 10%. And I think no surprise, if there was a construction boom in Europe, most of it was in the southwestern part of Europe, particularly Spain. Construction permits are down 44% year to date in Spain. Automotive is down as well. GDP basically flat. So simply said, the thought of

European markets being buoyant is anything but true. They have been relatively soft, although not as soft as the U.S., for the last six to nine months, and we're faring fairly well in those conditions.

The next chart is a look at The Stanley business within Europe that we thought would be helpful to overlay one on the other. This is information we normally wouldn't provide on a call or wouldn't get into this level of detail, but we think there is enough diversity of opinion out in the world in terms of how we're doing in Europe, relative to the rest of the world, and how important Europe is. We put it on a two quarter rolling average basis, just to take some of the lumpiness out of the numbers. On the left is total Europe, and if you go back to third quarter '06 or fourth quarter '06, you see mid-to high single-digit volume growth in the black, and prices being relatively flat.

Of late, you see that the volume growth has flattened, it hasn't gone negative, but it's basically zero, or flat, with price offsetting some of the volume declines or the volume flattening. So, as an example, in the most recent quarter, volume in total up .2%, price up 1.3%. That would translate on that basis to 1.5% growth. A subset of total Europe is to the right, which is European construction, CDIY, and you see the volatility. If you go back to the same time period, high single or low double-digit volume growth, flat pricing has since turned the negative volume growth, although low single digits, mitigated by some price.

So, an obvious question is, how and why have we held up in market conditions that I think are far less robust than perhaps is the perception. There were a lot of factors going on, first and foremost, new product innovation continues to accelerate. Simultaneous introduction of products on a global basis, instead of Europe trailing the U.S. by six to nine months has had a tremendous impact. We continue to support our brands in all major markets.

Facom had its new catalog in March '08, that has been very well received, celebrating the 90-year anniversary of the company. And there are revenue synergies from the Facom acquisition that are now fully embedded. We have had 2.5 years of collaboration among the Legacy Stanley and Facom teams. They are all under one management team in one place. And that too is having an impact relative to the conditions out there.

So, our conclusion is continuing to operate well in a weakening market that may get weaker. That being said, we want to make it very, very clear, the European market relative to history has been anything but robust in the last six months.

Let's go back to a more traditional look, if you will, at our segments the way that we have typically talked to you about them on this call. Most of this has been said. Construction and DIY revenues are up 4%, driven by Europe. You see the operating margin flat, and segment profit up $3 million or 4% in absolute terms. Sales up 4% outside the U.S. You saw that on the maps on chart 5.

The U.S. is obviously impacted by the weak residential construction market, although we're encouraged by the results, given the volume softness within the U.S. retail channels. We are clearly gaining share, as our volume is down at, about one third or less the level of the market in general, and that's just simple arithmetic. We know we're gaining share as a consequence, and encouraged that the segment profit rate has held at 14.6%, despite the significant inflation and volume pressure. Jim is going to show you some numbers and be a little bit more granular on what is in our press release, but that number has gone up about $150 million annually, about two thirds of Stanley's inflation always is steel, and about two thirds of the steel inflation is in the construction and DIY segment. So this segment holding at 14.6, given the magnitude of inflation in general, steel inflation in particular, and the high steel content within the Bostitch business, the consumer tools and storage business, is a good achievement in terms of both product innovation, mix upgrades and price recovery.

Moving on to industrial. Double-digit revenue growth, but to the extent - - at the expense of 220 basis points of margin. Simply said, industrial and automotive tools revenues did grow 10%, 1% of which was organic, remember, very large business there in Europe and a lot of currency effect. Facom continues to do extremely well, with revenues up 20% and 4% organically, certainly in line with the market, if not slightly ahead. So we continue to be pleased with the performance of that business, and the Americas down. Engineered solutions were up 20%. More than half of that is from the recent Interspace acquisition that we've talked about. That's our intelligent cart focused on healthcare channels.

Solid organic growth in the remainder of the engineered storage business, specifically Vidmar. The hydraulics business remains strong in terms of volume, and Assembly Tech's holding pretty well, given its focus in automotive. Segment profit is down, steel inflation, product mix, as well as strategic investments. And just to give you a little more light on that, Proto and Hydraulics in particular, within this segment, extraordinarily high steel content, they will be behind through the third quarter, and we think catch up by the fourth quarter, in terms of ability to recover via pricing the steel inflation that they have absorbed. And we continue to invest in emerging markets in our industrial channel, both in the Mideast as well as Asia. It's an engine and a platform for future growth, and we think this would be the worst time to take our foot off of the accelerator in those markets.

Last but certainly not least is security. What it shows you on a total basis is revenue up 1%. That being said, 7% without the hardware headwind that we talked about. Segment profit flat on a similar basis, as well as the profit rate. Flat without hardware, down 60 basis points, including the loss of the hardware business. We were very pleased with the performance of the Convergent Security business.

And just to refresh everyone's memory that's the Legacy Systems Integration business at Stanley. It HSM on an internation business, it's the Blick business in the U.K., the Frisco Bay business in Canada, and this is where Sonitrol will fit, and Tony will talk about that a little later on in the presentation. Nice sales growth up 9%, 5% of which was organic. We're getting operation leverage that we hoped for with HSM, and of greater importance to us as our U.S. systems integration margins continue to expand from the successful reverse integration of the Legacy Stanley SI business into HSM.

Mechanical access, which consists of our access technologies business, mechanical and electromechanical locking, personal security, which is our senior technologies and bed-check business, as well as builder's hardware, up 6%, 2% organically, excluding the hardware, and this quarter was about $18 million down due primarily to the loss of the business in a large retailer. That, as I said earlier, will anniversary in the fourth quarter, and if nothing else the comps will get easier, but maintaining that business where it is in light of that orchestrated withdrawal from about $50 million on an annual basis piece of business, is holding up pretty well. Profit remains high at 18.7%, [x] the hardware, but I don't think we need to apologize for 18.1%, as stated and as reported.

Now working capital management and cash generation remain a focus, particularly in this environment, and we're making progress in both areas. I'm going to turn it over to Jim, who is going to take you through some of that, as well as talk to you about going forward for the rest of the year.

Jim Loree - *The Stanley Works - CFO, EVP*

Okay. Thank you, John. First of all, inventories were a great story, with an eight-day decrease in light of the volume issues - - the physical volume reductions that we're encountering, which we'll talk about in a few minutes. It's really difficult to bring inventories down like that, and can't be done in a haphazard way. It has to be done through process and methodical process improvements, and that's exactly what is going on with The Stanley fulfillment system, as it relates to inventories. So we can look for more progress in inventories as the year goes on, and I think that will continue to be a good story.

Receivables were up quite a bit, and 12% to be specific. We're not terribly concerned about that, because the vast majority of that was related to an administrative calendar issue, which had to do with where the month closed, and that should take care of itself by the fourth quarter. May continue in to the third quarter, but should be out of that by think fourth quarter. So receivables, we have no material delinquency creep that we've analyzed very carefully, and don't have any real issue there, and payables continues to be a very good story. So we were able to improve the turns from 4.5 to 4.8, and we expect to close out the year well over five turns, so good progress there.

The cash flow, and the company's cash-generating capability continues to be an excellent story, with good solid cash flow for the quarter. It would have been even better had it not been for the fact that we terminated a $17 million receivable securitization facility, and no longer need that facility, given that we have $800 million in liquidity lines out there right now, so we elected to terminate that cost of $17 million in the quarter, but we continue to believe that receivables will generate cash in 2008. So on a year to date basis, we're at about $138 million of free cash flow, compared with $152 million last year, down $14 million. If you take away the effect of the terminated facility, in effect we're tracking to last year's levels, which is, we're very high, our highest ever.

Moving on to price and inflation. This has been a really incredible phenomenon in 2008, like nothing we have seen since John and I have been here. It certainly probably harkens back to the '70s, when we as a country experienced this kind of inflation. Our estimate started the year, if you recall, back at the February analyst's meeting, we indicated that we thought inflation would be about $75 million. Today that number is 2X the $75 million, and basically at $150 million, we could have had $0.70 cent per share negative impact from that inflation had we not responded in a very crisp, robust way, so our price recovery continues to highlight the company's strong inflation forecasting and also just price recovery discipline. And you can see that we were expecting to recover 80% back in the initial time frame, we upgraded that to 90% last earnings call, and we still, despite the fact that we're going to have $150 million of inflation, we still believe we will recover 90%. We have already taken most of the actions that are required to accomplish that. And in this environment you really need a robust price recovery mechanism in order to preserve the margins.

The latest culprit in the inflationary trend area is not surprisingly steel, and the steel companies have gotten very aggressive with tearing up contracts, not honoring commitments and so forth. Resin purchase products also a factors, but steel is really the big culprit there.

Moving on to guidance, the 2008 guidance that we issued in January of $4.20 to $4.40 assumed organic sales of roughly flat, to up 1%, and price of about $60 million, which was 80% of the $75 million inflation that I just talked about. So price would have been about a point of sales, 1.2% to be exact. So at the time, in order to get to zero to 1% organic sales, we were assuming the physical volume would be essentially down a point, roughly, and I'll come back to that in a minute. If we take now the effect of the discontinued operations, which primarily involve the sale of CST, but also some smaller product lines totaling about $60 million, which we announced in mid-June, as well as the recently closed Sonitrol acquisition, which has a $0.02 dilutive effect in 2008, on an adjusted basis, that guidance would look more like $4.10 to $4.30.

Now, as we indicated last call, we were suspecting that the second half economic environment could be difficult, and it certainly has fulfilled that expectation. So we put in place a contingency plan which provided for a $0.20 benefit in '08, net of $15 million of restructuring, and as it turns out, the volume impact is now going to be about $0.50 a share, which is what we suggested it might be last time, if the economic difficulties were to continue. So we've implemented those contingency plans subsequent to the last conference call, and as a result of that proactive action are able to preserve the earnings space. So the $3.90 that you see here relates to a $3.88 continuing operations number for last year. And we now believe organic growth will be down 1%, but the fact that price is now up about two points, really means that volume is down three to four points. So the physical volume impact from the recessionary conditions in some of our markets is really severe, and I would like to think in terms of the ability to draw down inventory with a 3% to 4% reduction, and still preserve an earnings base means that there is a lot of good work going on in the productivity area in the company as well.

We'll move on now to significant 2Q events. We're pleased to announce that Brett Bontrager, our Vice President of Business Development and our President of Stanley Convergent Security Solutions, was named an Executive Officer by our Board. That press release, as Greg mentioned, had been issued, and we congratulate Brett on that achievement. We also agreed to sell our CST/berger laser leveling and measuring unit, which was about $80 million in revenues. We announced that in mid-June. Hope to close that shortly, next couple of weeks. We were able to achieve a selling price of $205 million, and we also at that same time announced plans to divest about $60 million in revenue for some smaller non-strategic businesses during the year.

And worthy of note, the CST/berger business had become non-strategic, because it was getting - - it had competitors from the high end that were coming down, and competitors the low end that were coming up, it was in the middle. When we bought that company back on 2004, we were envisioning that it could become a growth platform if we were able to acquire some of the other companies on the higher end. As it turned out for various reasons, none of those were available for acquisition, and we were really left with no degrees of freedom, so the decision to sell that business was made in year, and we were able to achieve a very healthy $205 million for something we paid about $60 million for four years ago.

We also announced the acquisition of Xmark for approximately with $50 million. It's located at Ottawa, Canada. It develops and markets RFID based systems to identify and protect people and assets in the healthcare market. It's principal products focus on infant protection in hospitals, and wander protection for Alzheimer's patients and the like. As many of you know, we have a small, kind of fledgling business, but extremely a high-growth and profitable business in the securities segment that specializes in healthcare type security like this.

And then we also announced the acquisition of Sonitrol for $276 million. A very exciting and meaningful acquisition, and as Greg mentioned, we have Tony Byerly, COO of the North American Convergent Security business here to share some highlights. Tony would you please talk about Sonitrol?

Tony Byerly - *The Stanley Works - COO, North American Convergent Security Business*

Thanks, Jim. As Jim mentioned these are exciting times in the electronic security industry. I have been in the security industry for nearly 20 years, and have seen only a handful of industry-defining moments. One such moment began roughly 1.5 years ago with the acquisition of HSM by the Stanley Works, and the combining of it with the Stanley Systems Integration Business, creating Stanley Conversion Security Solutions. That moment really has fully evolved now with the Sonitrol acquisition. The combining of Stanley CSS with Sonitrol creates the third largest electronic security monitoring company in the U.S., based on total revenue.

Sonitrol has both a direct and a franchise network go-to-market approach, boasts about 125,000 customers, and Sonitrol is best known for its industry-leading audio verification technology, and as a results, reports the industry's highest apprehension rate and lowest dispatch and false alarm rate, making it a law enforcement friend. Sonitrol's revenue is broken down by 53% coming from monitoring and service, 34% from installation, 8% from equipment and product sales, and 5% from franchise royalty. The combining of Stanley CSS and Sonitrol not only creates the third largest overall provider, as I mentioned, but also solidifies Stanley CSS as the second largest commercial security monitoring provider.

Now the company reports $110 million in total revenues, and through its audio verification technology reports one of the most stable customer bases in the industry with low attrition rates, and an average customer life of 12 years. There are numerous strategic benefits to the Sonitrol acquisition. First it increases the overall CSS global platform to over 700 million, and the Stanley Securities Solutions platform to over 1.6 billion. As previously reported, the acquisition will be $0.02 dilutive in 2008, as Jim mentioned, $0.04 accretive in 2009, increasing by an incremental $0.05 each other thereafter.

There are also numerous similarities between the two businesses. Both are commercially focused, both drive an RMR or recurring revenue business model, both are known for quality and high customer satisfaction, and both have a solid national account program. The acquisition certainly brings increased scale of operations and national accounts to the organization overall. In addition, this allows us to really focus in on specific vertical markets, for example, the education market. Sonitrol is a leader in the K through 12 market, and Stanley Security Solutions is well-positioned in the higher education market. Now in addition to Sonitrol's audio verification and intrusion alarms, which they are very well-known for, the company also offers a full range and suite of services, as well as security systems, including access control, video surveillance, or CCTV, fire alarm detection, and other security equipment products such as video monitoring and online access control management.

With the close of Sonitrol behind us on Friday, and as with previous Stanley acquisitions, the integration is already in progress and has been carefully planned. I'm pleased to have Todd Leggett, who is actually Sonitrol's former Senior Vice President of Operations, to join our team as our Vice President and General Manager of Sonitrol Operations. Todd has a considerable amount of experience the industry and specifically at Sonitrol. Joining Todd, and leading our integration efforts, will be Jim [Copleen], who is one of our most seasoned leaders, and who has a considerable amount of acquisition assimilation experience as well.

Of course Todd and Jim are driven by the entire team, and I won't go through the many years of experience on this call. I don't have the time. But all integration activities will be carefully monitored and controlled, and we are excited to have Sonitrol as part of the Stanley CSS platform. I'm going to turn it back to Jim, and he's going to talk about the transition.

Jim Loree - *The Stanley Works - CFO, EVP*

Thank you, Tony. We're pleased to have Tony and his team in charge of integrating Sonitrol. They did a great job with the reverse integration of HSM, the same team that lead that, now working the Sonitrol acquisition, and we're looking forward to great results there. As we look at the portfolio transition, this is truly a remarkable metamorphosis over the last few years, from '02 to '08, with a $2.6 billion company with 65% of our revenues in construction and DIY in 2002, with the largest customer totaling 22% of our revenues. By last year, we had built the security business up to about 31% of the total revenues, construction DIY was down to 40%, and industrial had grown to 29%, and we were $4.5 billion, so close to double in size. And then as we now adjust for the divestiture of CST, and the acquisitions of Sonitrol and Xmark you can see that the various portfolio moves that we announced in the last quarter have had a notable effect on the portfolio composition, so you can see the security business will now account for about 35% of the revenues, rapidly approaching the size of the construction and DIY business which is 37% and of course the industrial is roughly the same. So in general, continued progress in a tough environment, tough operating environment, but some of the challenges in this environment are also creating opportunities for us, and we continue to take advantage of those.

Just a very, very brief refresher on the growth platforms. We continue to allocate our capital into our three major growth platforms, industrial and automotive tools, mechanical security, and convergent security, so here you have seen a number of acquisitions that are more focused on the convergent business in the last year or so, but we would not be at all surprised to see some progress in one or two of these other growth platforms over the next coming months.

And I'll wrap it up now. We took a little bit longer than we usually do with the overview, but we had a lot of content. Needless to say the inflationary conditions have accelerated. We've implemented the strong recovery actions. Price management, we talked about the rigorous process that we have enabling 90% recovery. Good news also is that we're able to recover price in CDIY much more effectively than we have in past years. We're looking to recover close to 80% this year of our inflation in construction DIY, so with the Chinese inflation and so forth have helped that out, and competitive dynamics are such that we are able to do that.

We will encounter a lag in the price inflation recovery in the third quarter, so for those folks that are modeling, please factor that in. We have quantified that in the press release, so that should be easy to do. We're also going to provide a schedule for those of you who are interested, later today, that will break out the quarters for '07 on a re-cast basis which will reflect the discontinued operations. I will caveat that by saying that that will change from quarter-to-quarter here, and we'll continue to provide that on an ongoing basis this year. It will change as some of the $60 million transactions that we talked about are closed, and they actually are removed from the continuing operations. So it will be a challenge to keep up with it, but we'll provide as much information as possible to make it easy.

The markets themselves are offering no signs of rebound. We talked at length about that, so the organic growth forecast is now down 1% to 2% for the year, the volume with a an even steeper volume decrease. John talked at length about Europe. The contingency cost actions have been implemented. We expect to be able to preserve our earnings and cash flow base, amidst these weak markets, and we absolutely should be well positioned for a successful '09, regardless of what the conditions might be, with strong price momentum, with carryover from the cost reduction actions coming in to '09, the hardware loss will anniversary in the middle of the fourth quarter, and we'll have a substantial amount of restructuring in the '08 base, and the Stanley fulfillment system is gaining traction. So, as I said a minute ago, we're taking advantage of the market conditions, performing well, but also taking advantage of this opportunity to advance the portfolio. And we'll turn it over for Q&A at this point.

Greg Waybright - *The Stanley Works - Interim VP of IR*

Carly, at this time we'll turn it back to you for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Your first question comes from Peter Lisnic with Robert Baird.

Unidentified Participant - *Robert W. Baird & Co., Inc. - Analyst*

Good morning, it's actually [inaudible] on for Pete. Can you guys just talk about with MCSS the 5% organic growth, was recurring revenue kind of growing at that rate also, as a reversed integration that you've done, is that fully on track now?

John Lundgren - *The Stanley Works - Chairman, CEO*

Yeah, John, this is John, I'll take it. Although Tony could probably take it even better. The simple answer is yes. The percentage of recurring revenue is actually increasing, although that's what we modeled, as you'll recall, HSM recurring revenue was dramatically higher than the Legacy Convergent Stanley business, so in total, the weighted average is increasing, and in fact the percent of - - the proportion, excuse me - - of recurring is increasing a little faster than the rates in general.

At this stage, 18 months in, it's a little premature to declare victory, but all I can say is we're pleased beyond our initial expectations, and we were cautiously or highly optimistic about acquiring HSM. The team is still in place, and I think the best indication of that is we have just gone and made another $275 million acquisition in similar space, and empowered the HSM team - - former HSM team and Brett Bontrager to integrate that business. And without over-simplifying, the process worked extraordinarily well with HSM and Tony and his team along with Todd Leggett from Sonitrol, who is an industry veteran, we hope to apply the exact same type of methodology with Sonitrol and get the same kind of initial success and maintain the momentum as we did with HSM.

Unidentified Participant - *Robert W. Baird & Co., Inc. - Analyst*

My follow-up, just the free cash flow generation has stayed really strong, kind of relative to everything else. And just what are your uses of that free cash flow looking forward?

John Lundgren - *The Stanley Works - Chairman, CEO*

Well, as we have said all along, historically two thirds of our free cash flow has gone to strategic acquisitions. One third has been returned to the shareholders, and equally split between dividends and buybacks. Going forward, you could expect that to continue. I mean, we think Stanley stock is a good buy right now.

That being said, that's a one-time opportunity, and it doesn't advance our portfolio strategically. The acquisition pipeline is robust, with strategic acquisitions within the reach of our cash flows. You'll recall, we did announce a modest increase to our dividend the [41st] consecutive year. So I think it's fair to say $500 million in cash flow on an ongoing basis going forward, I think the two thirds of it will be used for strategic acquisition, and one third will be turned to the shareholders, primarily via dividend, opportunistic buy-back, when and if the pipeline is not full, or we feel that our stock is so depressed while it's not strategically advancing our portfolio, it's the best short-term use of cash.

Unidentified Participant - *Robert W. Baird & Co., Inc. - Analyst*

Okay. Thank you.

Operator

Your next question comes from Jim Lucas with Janney Montgomery.

James Lucas - *Janney Montgomery Scott - Analyst*

Good morning, guys, and I've gotten a very good impression of the good color on the conference call today. Two questions, one, on the industrial margins, could you give us a little bit more color on how much of that is the pricing gap versus mix, and any additional color specifically on the mix? And secondly, just following up on the last question about the cash flow usage on the robust acquisition pipeline, can you talk a little bit about what you are seeing in the various growth platforms? What type of - - where maybe any type of color that you can give on the tools versus security, what you are seeing out there in domestic versus international.

John Lundgren - *The Stanley Works - Chairman, CEO*

Jim will take both of those, Jim, and I'll add on if need be.

Jim Loree - *The Stanley Works - CFO, EVP*

We're looking for international acquisitions in the security business, with some success in the pipeline, and as far as the tool industry, the tool industry is supposed to consolidate at some point in time, you know, I have been waiting nine years since I have been here for it to happen. I would suggest that this may be a fairly opportune time for that, simply because of the stresses and pressures on the cash flow and the earnings statements of certain tool companies that are sort of in the middle, similar to how we were with CST. They are not private label and they are not the world's best branded hand tool company, they are somewhere in between and they are getting squeezed. So there's some of that going on, and I suspect this industry will likely consolidate at some point in time, and I don't know whether it will be this year, but if it does, we will be in a good position to be a participant in that. So that's really the growth platforms.

As far as the industrial profit margin, off 220 basis points, I would say it's about one third of each. The strategic investments where we did a fairly substantial amount of consulting work in product simplification and complexity reduction to help us with our inventory reduction in the Stanley fulfillment system initiatives, and that was about a third of the issue. And then product mix is, we're finding particularly in the automotive repair business in industrial a little more tendency to avoid the big-ticket items, and of course the state of the financing markets hasn't helped, since many of those credits when they sell tool boxes and so forth to end users, they tend to be sub prime for close to sub prime in nature, and the availability of financing is constrained at this time obviously. So,some of the higher-margin storage type business in automotive repair is being stressed a little bit.

And then we just have other mix issues here and there throughout the portfolio in industrial that are probably less structural and just temporary in nature, and the other third is this price gap that you talk about when you end up with - - in the industrial business in particular, they tend to be a little slower paced as far as the industry goes recovering price, because they have catalogs and things like that. That's all changing in this environment, but sometimes it takes a little time to change behavior patterns, and so our businesses are working hard to change those patterns, and they range from businesses like hydraulics, which I think has implemented something like six price increases this year, to Proto, which has implemented one and is now about to implement another one, and everything in between. But with the recent spike in inflation, they got caught a little bit more than the other businesses with unanticipated, unrecovered inflation, but it will be temporary.

James Lucas - *Janney Montgomery Scott - Analyst*

Back to your acquisition commentary, have you seen any changes in the multiples out there, or is it still that seller's premium that's out there?

John Lundgren - *The Stanley Works - Chairman, CEO*

No, Jim I'm glad you got to ask. I was going to add on time permitting. The good assets, obviously there's very little private equity competition for those assets. That being said, there has been very little price capitulation on the good assets. I think it would it would be a tough time to sell poorly performing assets or assets without a great growth profile or opportunity for growth with some synergies, but if you look at businesses that we have just sold, as well as businesses that we have acquired, the numbers aren't crazy, but the good businesses continue to sell at a rich premium, reflecting their growth in income potential, and I think as long as those are the types of businesses being sold, that's our expectation for the next six to 12 months. Full and fair prices for the good assets.

James Lucas - *Janney Montgomery Scott - Analyst*

Okay. Thanks again for the color today.

Operator

Your next question comes from Michael Rehaut with J.P. Morgan.

Michael Rehaut - *JP Morgan Chase & Co. - Analyst*

Hi, good morning.

John Lundgren - *The Stanley Works - Chairman, CEO*

Good morning, Mike.

Michael Rehaut - *JP Morgan Chase & Co. - Analyst*

The first question just on the raw material and offsetting actions. If the raw materials were to sort of stabilize here, which unfortunately doesn't look likely, but what would that 150 be in terms of a carryover into '09, and am I to assume also that the actions that you have taken, you're expecting an incremental 40 million benefit on the cost savings?

Jim Loree - *The Stanley Works - CFO, EVP*

What was the second part of the question?

Michael Rehaut - *JP Morgan Chase & Co. - Analyst*

Should this be offsetting, what would flow through on the raw material side.

Jim Loree - *The Stanley Works - CFO, EVP*

We have been playing catch-up, you know, when you are chasing inflation, you know, you are playing catch-up. So if inflation stops, price exceeds inflation when it stops. So we're not - - the cost actions are not for price recovery, and you are right, I mean it's a hypothetical question, because in reality we're not expecting the inflation to stop, and we're not expecting our price actions to stop as inflation increases, so it's very hypothetical. What we're girding against with these cost actions is a continuation of an economic slowdown, and we don't know whether that is going to happen, just like we didn't know if the second half was going to be as bad as it is. But we're prepared with a $40 million carryover and $30 million of restructuring in the 2007 base, which we may or may not use next year, depending on circumstances. We're prepared to weather whatever kind of storm comes our way with good solid earnings and cash flow performance.

Michael Rehaut - *JP Morgan Chase & Co. - Analyst*

Okay. I guess secondly, where would you expect over the next two, three years to see your products mix continue to go? I mean would you see security getting up in to the forties? How would you think about consumer DIY? Are you comfortable at the size it is today, or do you think you could see that shrink a little further.

John Lundgren - *The Stanley Works - Chairman, CEO*

It depends on whether it's in absolute terms, Mike, or it's a percent of total.

Michael Rehaut - *JP Morgan Chase & Co. - Analyst*

Percent of total.

John Lundgren - *The Stanley Works - Chairman, CEO*

Yeah, I understand. As Jim showed, as we closed '07, we're going to be close to a third, a third, a third. That was our interim objective. We've said for a long time, we would like security to be 50% of the total in five years. That's probably slowed down a little bit. We said that three years ago, and we continue to grow. Our objective with CDIY, with the sale of CST, there are two good businesses within CDIY and they are big. We think we can grow them organically a rate slightly above the market, keep them at about the 1.7 billion where they are currently, growing at low to mid-single digits, which means they will decline as a percent of total. We don't have a problem with CDIY businesses in general, it's the home center dependency we're trying to stay away from. So, if I had to speculate, you said two to three years, they probably could go down to as low as 25% of the business, while the combination of security and industrial would be 75%, with security growing at a little faster rate than industrial, barring any of the major consolidations that Jim talked about. We don't want too shrink any of our businesses in absolute terms however. Jeff's Ansel's team is doing a great job growing a CDIY business with innovation, mix, and pricing in a market that's down high-single to low-double digits.

Operator

Your next question comes from Eric with Cleveland Research. Eric, your line is open. If your line is on mute, please unmute your line. There is no response from Eric's line. We're continue with the next question.

THOMSON REUTERS

John Lundgren - *The Stanley Works - Chairman, CEO*

Let's go on to someone else.

Operator

Okay. Your next comes from Nigel Coe, with Deutsche Bank.

Unidentified Participant - *Robert W. Baird & Co., Inc. - Analyst*

I have some questions on Nigel's behalf. Within CDIY I was hoping you could give some color on both Bostitch and the Consumer Tools business. What are you looking for related to Bostitch and Consumer Tools? Just some additional color on how those businesses are performing?

John Lundgren - *The Stanley Works - Chairman, CEO*

They are both performing consistent with expectations. In fact consumer tools and storage is performing maybe better than we'd expected, given the market. And Bostitch is about where we hoped it would be. It's a little bit frustrating but not discouraging. Specifically we have taken $50 million worth of cost out of the Bostitch business. We have inherited - - we have absorbed a lot of inflation. We have gotten almost $50 million of price with the Bostitch business, and doing all of that, margins have remained about where they were in the last two quarters.

We need a little bit of help from the marketplace on Bostitch to get margins back up to the high single, low double digits, where it has been historically and where is our target, but if there is a perception that Bostitch is losing money, it's simply not the case. It is making money. It is making money in the low single-digit operating income for a couple of quarters in a row. Doing a great job internally, with price, manufacturing restructuring, and tremendous SG&A constraint, weathering a market that's down. About 50% of the Bostitch business is CDIY, and 50% is industrial, neither of which are terribly strong, and about 25% of the Bostitch business is outside of the US, that business is very healthy. So Bostitch is running really, really hard to stay in place, and with a little bit more pricing, which the market, I think is ready for, and a little bit of help from the market, I think we'll get it back to where we want it to be, and where it rightfully should be at this stage of the process.

Unidentified Participant - *Robert W. Baird & Co., Inc. - Analyst*

Okay. And then going to the restructuring, where specifically are you guys looking to restructure?

John Lundgren - *The Stanley Works - Chairman, CEO*

Well restructuring is broad-based. It means marginal facilities, SG&A cuts, people, as opposed to spending, for which we reserve. It's pervasive across the company. Obviously we would, across all businesses across the company, obviously we would do less restructuring in our highest potential growth areas for fear of cutting that growth. So basically what it is is getting certain businesses that are facing marketplace head winds downsized so their infrastructure is more in line with the reduced size of the business, and that applies to every business in Stanley whose volume and revenues aren't up.

Unidentified Participant - *Robert W. Baird & Co., Inc. - Analyst*

Okay. Great. And one last quick one if you don't mind. Are you guys currently paying full spot prices for steel?

John Lundgren - *The Stanley Works - Chairman, CEO*

No. We would like to think with our global sourcing capabilities, we're at or below market, but it depends on what one does call what one is establishing and agreeing to be the spot price. We would like to think we're doing a good job leveraging our global sourcing capabilities. What we do know is our prices are going up as fast as everyone else's, it's just from which base we're talking. So the magnitude of the increase from the base is unprecedented. We would like to think we're paying a little bit below full spot prices because we're buying ahead to the extent we can, and that's given us a bit of a benefit.

Unidentified Participant - *Robert W. Baird & Co., Inc. - Analyst*

Great. Thank you.

Operator

Your next question comes from Anna Stromberg with NAB Capital . I'm sorry your next comes from Seth

Seth Harver - *[Stanopoint] - Analyst*

Good morning. Going back to the cost recovery question, I don't know if you actually will kind of break this out, but what percent of your cost inflation is primarily attributable to steel? I am just trying to get a sense of we can see what is going on with steel pricing and how much is driving that, and my follow-up question would be, what type of price recovery do you need to get across your product lines to be able to get your targeted 90% price recovery?

John Lundgren - *The Stanley Works - Chairman, CEO*

Well, the second one is going to be very difficult to answer. The first one is easy. I talked to it earlier. Roughly two thirds of all of our inflation is steel. The rest in order of descending priority is resins, non-ferrous metals, and of course there's a little lit more stability in non-ferrous in steel, last year non-ferrous metals in fact were greater because of inflation in steel. So roughly two thirds of our cost inflation is steel, followed by resin, non-ferrous metals, and then various other inputs. What kind of price we have to get, I mean it's simply arithmetic. 90% of 150 million is about 135 million. You need $135 million on a $4 billion revenue base. So globally across Stanley, that's 3% to 4% on an annualized basis for the year. That's going to vary dramatically by business where some are up 20 and some are flat. But simply said, we need $135 million on $4.5 billion, which is 3% to 4% on an annual basis, with tremendous discrepancies or variations across the Stanley businesses. I hope that answers your question, if not, for more granularity, Greg can walk you through that offline.

Seth Harver - *[Stanopoint] - Analyst*

Okay. Thanks. And this concludes the Q&A session for today's call. John, do you have any closing remarks?

John Lundgren - *The Stanley Works - Chairman, CEO*

No, just obviously it was a very busy quarter, and we feel good about the results, given the environment that's out there. We have got a lot to work to do on pricing. We think we have the right people in place to do it, and barring any major news, we'll talk to you again in October. Thanks for your interest this morning.

Operator

Thank you for participating in today's conference call. You may now disconnect.