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SWK - Q2 2009 The Stanley Works Earnings Conference Call

Event Date/Time: Jul. 22. 2009 / 2:00PM GMT

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PRESENTATION

Operator

Good morning. My name is Jennifer. I will be your conference Operator today. At this time, I would like to welcome everyone to The Stanley Works second quarter 2009 results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

At this time, I would like to hand the call over to Miss White. Please go ahead.

Kate White - *The Stanley Works - Director of IR*

Thank you, Jennifer. Good morning, everyone. This is Kate White, Director of Investor Relations for The Stanley Works. Thank you all for joining us on The Stanley Works 2009 second quarter conference call this morning.

On the call in addition to myself is John Lundgren, Stanley's Chairman and CEO; Jim Loree, Stanley's Executive Vice President and COO; and Don Allan, Stanley's Vice President and CFO.

I would like to point out that our second quarter earnings release, which was issued this morning, and a supplemental presentation, which we will refer to during the call, are available on our home page, which is www.stanleyworks.com.

This morning John, Jim and Don will review Stanley's second quarter 2009 results and various other topical matters, followed by a Q&A session. The entire call is expected to last approximately one hour, and a replay of the call will be available at 2:00 p.m. today. The replay number and access code are in our press release, and as always please feel free to contact me with any follow-up questions after today's call at (860) 827-3833.

We will be making some forward-looking statements during this call. Such statements are based on assumptions of future events that may not prove to be accurate, and as such they involve risks and uncertainties. It is therefore possible that actual results may differ materially from any forward-looking statements that we might make today, and we direct you to the cautionary statements in Form 8-K which we have filed with today's press release, and in our most recent 34-F.

With that, I will now turn the call over to our CEO, John Lundgren.

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

Thanks, Kate. Good morning, everybody.

Let me start just with an overview, as I think that many of you have said it has been helpful in the past, on how we see the state of affairs at Stanley, and just some of the highlights from the quarter. We did post GAAP earnings of $0.89; that included a $0.34 gain on the extinguishment of debt. So our normalized EPS from continuing operations was $0.55. You'll recall that the debt to which I'm referring was $103 million of our ETPS instrument that we used to finance the Facom acquisition in 2006. It was a great opportunity, and our Treasury Department capitalized on that.

We also announced a $50 million cost-reduction program, due to the steeper than expected unit volume declines in the second quarter, and about half of that will be realized during -- during 2009. I think it -- it's important to stay ahead of the curve given the volume softness, but I think it is equally important to note that the lion's share of the cuts that were recently implemented were in the areas of G&A, and not at the expense of brand support and important future growth initiatives.

We were really pleased with our gross margin of 39.9%. It was a record for The Stanley Works, despite the 24% drop in unit volume versus the prior year. Jim and Don are going to provide a walk later showing you how we got there, as well as why we believe we'll stay at or near that level for the second half of the year.

Security posted an 8% revenue growth and a 13% profit growth, a lot of that due to acquisition, but organic growth fell only 8% in the midst of this environment, which to us further validates our belief that while the segment of security isn't immune from macroeconomic downturns, it is certainly well-insulated and certainly more resistant than many other businesses. We did see some indications within our CDIY segment that year-over-year sales trends are some showing signs of improvement; more detail on that in the segment break-out.

On Monday we announced a dividend increase for the 47th -- 42nd consecutive year, 3.1% to $0.33 per quarter. It's obviously an important element of our total shareholder return; it also reflects our confidence in future cash flow generation, and our ability to achieve our forecasts. We're also quite proud of the fact that it's the longest consecutive annual record of an industrial company traded on New York Stock Exchange.

Our Stanley Fulfillment System, and the processes contained therein, remain a top focus for us. And the majority of our free cash flow we are going to generate in the second half of the year, and that we've generated in the quarter, did come from working capital improvements. We think it's a very credible achievement in the current reduced volume environment, but we've had a lot of questions running up to the call with respect to free cash flow, our forecast, as well as our ability to achieve it.

Don's going to provide quite a bit more insight on that towards the end of the presentation, but I think it is important to note up front that three of the last four years, more than two-thirds of Stanley's free cash flow came in the second half of the year. This is not a new phenomenon for Stanley. Don will, I think, will help provide more clarity and transparency on our projections.

Moving on to worldwide revenues, volume and sales essentially were down everywhere. The market slowdown has affected all regions, where less -- where a year ago we were able to report growth in every region of the country. The US of course is most important, it represents almost 59% of Stanley's revenues, and we were down 14% in total, 20% organically. Europe was most heavily impacted, down 25% organically and 30% in total. The other regions also were down comparably. I think it's probably important to note Australia, a relatively small region but important to Stanley, and the impacts of both currency and volume declines did have an impact on our business.

Now the US, as I mentioned, is showing, I'll say, signs of strength, or maybe better said, stability. It obviously entered the recession earlier, and based on historical precedent could expect to -- could be expected to emerge earlier. Also, just arithmetically, we're facing lower comps in the first and second quarters, as we will through the second half of the year.

Moving on to slide five, we don't normally spend a lot of time on this call talking about the macroeconomic environment, or things that everyone on this call can read about and read the same documents we do. But given the extent to which it affects our business in general, and our industrial segment in particular, we thought we'd spend a minute on it, as well as include some data that we think is quite revealing in the appendix.

The GDP declines accelerated through the first quarter, particularly in Europe, as most countries fell into recession, and that particularly affected our CDIY and industrial segments, and that was reflected in our results. We don't have it on this page, but you'll see in the appendix [after] quarters of about minus 1.7, minus 1.8. Both the UK and the -- Continental Europe or the Euro Zone GDP was down almost 5%, 4.9% in both cases. The US GDP outlook indicates a continued decline with, based on current projections, a slight abatement in the fourth quarter. After mid-2% declines, 3.7%, followed by the current projection of minus 1.4% in the fourth quarter.

I mention all of this because it is quite consistent with our outlook, you know, for the business in general, the environment in which -- in which we're operating, as well as it relates to installations in our security business that Jim's going to talk a lot more about later.

Industrial production declines are leveling off; that is the chart that you see at the bottom of this page. As we've talked about on earlier calls, the declines came much later in Europe than in the US. The fall was steeper and sharper, but of late has shown relative stability; and I think that's quite clear, just graphically looking at the chart, the left being the UK and the right being Continental Europe or essentially the Euro Zone.

And last but not least construction project delays have accelerated, but the abandoned projects have stabilized. There's a lot of detail you can look at later on page 26 of our appendix, but again it is consistent with what we're seeing in our security business, and as a consequence we're going to spend more time on this call than normal trying to relate installations to RMR by size of project and type of project, and I think that you will find that quite helpful in understanding what is driving our security business, and what is contributing to its stability.

Let's turn quickly to the results. There's nothing on chart six that isn't contained in more detail on the press release. GAAP earnings of $0.89, including the $0.34 gain from extinguishing the debt; normalized EPS of $0.55, as I said; operating margins down but still strong given the -- the high level of volume declines; and the tax rate was actually 100 basis points higher, it is just -- it is primarily business mix with lower earnings in foreign countries, are -- our blended tax rate obviously increases.

Looking quickly at revenues on the next page, we see a first quarter 15% decline followed by a 20% decline in the second quarter. Sources of growth, or lack thereof, to be more correct. Volume down 24%, which has been our focus. Price held up

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fairly well. Currency remained a headwind, but slightly less than in the first quarter; it was minus 4%. Acquisitions contributed 6%. And so in total, you see revenues down 20%.

On the right-hand side, I won't spend much time on this because Jim's going to walk you through each segment, but the number that jumps off the page is 40% in the industrial segment. We're going to talk to that, and how we think that looks going forward.

I did mention at the outset one of the highlights was -- certainly of the quarter was gross margin, and the achievement and how we're thinking about that going forward. I am going to pass the baton to Jim, who is going to walk us through margin performance and -- and -- and take a look at the segments, and then he's going to turn it over to Don.

James Loree - *The Stanley Works - COO and EVP*

Okay, thanks, John.

I must say that when I look at long-term trends, I love this chart almost as I love our ten-year cash flow history chart. This is a very positive trend for us, with 39.9% gross margin in the second quarter, up 160 basis points versus second quarter of '08 where we were at 38.3%. But as you look at the long-term trend, it clearly is a positive trend, and corroborating the theory that our gross margin percent I think correlates with the strength and the differentiation of our value propositions.

And this performance in particular this year has been key in avoiding the steep declines in the operating margin rate that we otherwise would have faced in the face of the volume challenges that we've had that are market-related. And we were able to do this while bringing our year-over-year inventories down about $100 million or 17% over the prior year.

But the real story implied by this chart is the transformation of the Company, both strategically and with respect to our operational excellence. And what this means, when you step back from it, is that we are extraordinarily well positioned for operating leverage in any kind of a growth environment; slow growth environment will be just fine, we'll be able to generate significant operating leverage.

And as we move to SG&A, I think we've also done a fairly good job focusing on resizing our SG&A to calibrate with the revenue size implied by the current economic environment. And when you look at the $255 million and adjust it for the $23 million associated with acquisitions, the expenses are actually down 18% versus the second quarter of '08; just slightly less than our organic revenue declines, so in -- in pretty good shape there.

And we've been able to do this while reinvesting about $20 million annualized in security sales force ads, particularly in the Convergent business and in our Major League Baseball brand awareness campaign, which this quarter we've now added Yankee Stadium and the stadium where the Toronto Blue Jays play. So we now have brought our MLB presence up to 10 teams this quarter.

Moving on to security, a look at the security segment, a great story. The business is now running at an annualized revenue run rate of about $1.6 billion, with revenues in the quarter of approximately $390 million or up 8%; segment profit up in double digits; and the profit rate, a new -- not a new record, but certainly an excellent performance at 19%, up 80 basis points over the prior year.

Convergent revenues grew 29%, clearly benefiting from acquisitions, including Sonitrol and GdP, which added, when taken in combination with some smaller acquisitions, about $50 million of growth in the quarter. The monitoring margins expanded from the continued excellent execution by the team in Convergent. The organic recurring monthly revenue was up 9%, and the acquisitions brought us some rate accretion as well.

I'm going to talk in a little bit more detail about the recurring revenue and the revenue picture in Convergent, because there is a real story there that I would like everyone to understand in the face of the negative 8% organic growth for the segment, overall segment. You'll see that the Convergent business is quite healthy, as well as the mechanical business.

The mechanical business had a 7% revenue decrease which, you know, was buffered by what we believe to be some share gains in a really tough market environment. They realized good price and kept their cost structure in line, and managed their working capital very well, down $16 million during the -- or versus the prior second quarter last year.

But I want to spend a few moments, as I mentioned, on the improving mix in electronic security. And when you just simply look at the organic revenue decline in -- in Convergent, it doesn't really tell the whole story; you have to kind of peel a few layers apart here. And if we look at the US, and we look at the subsegments within US Convergent, we have large projects, national accounts and core commercial. And the installation margin and the recurring revenue content of those particular businesses is correlated in exactly that order. So the large projects are the lowest margin, and then the core commercial are the highest margin.

And what you have there are steep organic installation revenue declines; large projects down greater than 30%, national accounts down somewhat greater than 20%, and the core commercial business down less than 10%. So single-digit organic installation revenue decreases in those businesses. And as you can see, the core commercial and the national accounts really represent the bulk of the business. But the -- and the large projects are really more of a legacy from the prior, pre-HSM, Sonitrol business.

But what's really interesting here when you look at it is the RMR, new RMR sales, so that is the new RMR that was added in the quarter, as a percent of the installation revenue sales is increasing across all three of those segments, but it is increasing dramatically in the core commercial; which indicates that the sales ads that we've been making and the compensation plan changes that we've made to really focus folks on the core commercial accounts in this environment, as well as the recurring revenue content, are really paying off. And obviously the recurring revenue has a much higher gross margin than the installation revenue, regardless of the segment. So in effect what you have here is a very, very positive mix change going on, which is allowing us to weather this economic storm in good stead.

And as you can see at the bottom, the sales force ads, the emphasis on recurring revenue, and decreased dependence on the lower margin, more cyclical large project business is helping us. We grew our organic recurring monthly revenue by 9% in the quarter, despite the 8% organic decline in the segment, in the overall segment, and that in and of itself is a big reason why the segment profit was up 13%. So that's a great story, in my view.

As we move to industrial, this is a very, very difficult market situation that our industrial folks are facing; revenues down 40%, organic revenue down 36%, problems in the markets in both US and Europe. Segment profit down only 56% in the face of a 40% revenue decline, while not great, it certainly is a good story that we're able to contain it to that level. And the segment profit coming in at 9.4%, which is a -- pretty much a low point over the last few years for this particular segment.

The industrial channels were definitely down more than the automotive channels, and that makes sense when you think about the benefits from the aging car fleet in the United States, in particular. And we believe that inventory corrections represented about 50% of the overall decline in the segment, and then the -- just lower production volumes and weak economy, in terms of inherent demand, really represented the rest. And when I say inventory corrections, I'm talking about drastic inventory corrections throughout the supply chain of our customers and the entire industry.

The storage business, though, was kind of consistent and maybe not quite as steep in terms of revenue declines and pretty much on a par sequentially. A couple of positive things, we really believe we're maintaining our share in this very difficult market. We have taken aggressive cost actions, and we know that not all of our competitors have done that, which is good. And we do feel like the market here is stabilizing, albeit at a very low level, and our cost actions while somewhat delayed due to the concentration of this particular segment in Europe are kicking in, and that we're likely at a trough in this particular quarter in terms of segment profit rate.

And finally Mac is a -- is doing quite well. And our financing program with GreenSky is intact, and we will not have to take any receivables associated with financing onto our balance sheet as a result. And so a pretty -- a couple of highlights there, but in general a pretty tough story in that particular segment.

And then moving on to construction and DIY, very encouraged by the profit rate in this segment, coming in at 11.3% ,on the heels of a 9.5% performance in the first quarter and a 6.4% trough performance in the fourth quarter of last year. So we were pleased with that. I think the cost actions are definitely kicking in, the revenue is stabilizing in this particular segment, and even showing some very faint signs of improvement.

And we won't get euphoric at all, but point of sale is steady to slightly up. Inventories at the customer level are stable, and organic growth seems to be stabilizing in the kind of minus 20% sort of a range. It was minus 19% in the first quarter, minus 23% in this quarter, but as the quarter went on it -- it was a slightly better picture sequentially. So we're feeling -- we're feeling good about the stability, frankly, in this segment, and I think we also believe that as we -- as we do start to see some signs of improvement in the economy, that this will be in all likelihood an early cycle improver in our portfolio.

The final thing I'll say here is that the Bostitch integration that we undertook in the earlier part of this year is well underway, and on-track, and really is a positive for -- much more positive than just the cost reduction aspect of it, as we talked about last quarter.

With that, I'll turn it over to Don Allan.

Donald Allan - *The Stanley Works - CFO and VP*

Thanks, Jim.

As both John and Jim have mentioned earlier today, we have talked a little bit about our acquisition impact and the positive accretion we're seeing in our margin rate. And so here on page 14, you can see that we wanted to give you a quick update on our -- primarily our 2008 acquisitions.

What we have here are three acquisitions that we did in 2008 that represent about 85% of the total acquisitions in that year. And in particular there's Sonitrol, X-Mark and Generale de Protection, which -- this chart we've shown over the years at various presentations around our integration process, and how we drive significant synergy realization through that process. And you can see that each one of the acquisitions has significant accretive impact, from where they were on their operating margin percentage before we acquired them. As an example, Sonitrol with a 22% operating margin, a very strong operating margin to start with; now it's -- after the integration process has been complete, it's greater than 30%.

So some of the key features we thought we'd touch on in our integration process, just a reminder to all of you that we go through a very robust process, especially in the first 100 to 180 days. We develop an integration plan actually in advance of the closing of the acquisition, that has the target management's team buy-in in essence, before we close on the transaction. Then subsequent to that, we go through a weekly and monthly senior management pulsing process, and many of those acquisitions include John, Jim and myself in those pulsing processes.

We've developed some very experienced integration managers, primarily over the last five years, that really understand our process and how to drive these benefits. And then last but certainly not least, making sure that we do have a native or in-country integration team, and that was very critical, and a great example of that is for GdP.

So as we move forward to working capital, we feel like we've continued to exhibit good control over our working capital, as our working capital dollars declined 21%, in line with or slightly better than the revenue decline of 20% which resulted in working capital turns improving from 4.8 in the second quarter of last year to 4.9 this year. And so if we -- if we dissect working capital a little bit and look at the three different pieces, why don't we start with accounts receivable, because it's certainly been a terrific story for us, especially in the last three to four quarters, and we continue to see that in the second quarter of this year. Down 29% to about $650 million, and well outpacing the decline that we saw in revenue.

And really what's driving that outperformance is our focus on delinquencies. As we've mentioned in previous calls, we started a robust set of processes around ensuring our delinquencies around AR are minimized, and compared to last year we had about a $70 million decline in delinquencies.

Next is inventories. Jim and John mentioned inventories are down 17% versus last year. And what's very impressive as well is that, if you look at the first quarter of this year, our DSI was 83 days, and now we've moved down to 77 days. So we're seeing sequential improvement, which is really the benefits of our SFS processes, and primarily in this area would be our sales and operations and planning rhythms that we've put in place over the last few years, and they continue to mature, and we see the effect of that as we're able to really drive our inventories down very close to being in line with the revenue declines.

The one negative at this point is really payables; payables is a user of cash year-over-year and quarter-over-quarter, but you're really seeing the effect of the inventory reduction, as well as the expense and CapEx reductions we've been driving toward this is year that are pushing that number down. We expect that to really stabilize through the remainder of the year, and the bulk of that decrease is behind us.

Moving to free cash flow, which is clearly benefiting from that working capital performance. As we saw, a positive working capital benefit in the second quarter of $30 million. One item of note here in our free cash flow is that John mentioned the gain on the debt extinguishment, so we have about $27 million of income in the net income line associated with that, and then this other line of $91 million is where that gets backed out. So it's not included in our operating cash flow.

Some other things in that other line include reductions in accrued expenses, some derivative settlements, as well as restructuring payments that we've made associated with our various cost reduction actions that we started in December of last year. So our performance in general was really driven by working capital and free cash flow, and we feel good based on the second quarter performance that we can achieve our $300 million estimate for this year, and I'll walk through that in a little more detail a few pages from now.

Shifting to the balance sheet, we continue to feel good about our position on our balance sheet. We've had our debt to cap ratio move down slightly from where it was in the first quarter, down to 46%. And then when we adjust from -- for our hybrid equity and debt instruments, it is somewhere between 34% and 37%. So it's close to where we -- we expected it to be for this -- this period of time.

As -- as we mentioned in previous calls, we're driving towards an objective of trying to deleverage ourselves by about $200 million this year, and that continues to be an important priority. And we've made it -- some nice progress so far through six months, where we've deleveraged ourselves by about $70 million in that timeframe. So we feel like we're on track to achieving those goals at this stage.

Focusing on guidance, which is the next page, I want to spend a little bit of time on this page and make sure we understand what's going on here. If you focus on the left side of the page, which is EPS, these are changes compared to our last guidance that we provided in April.

The first item is a revised 2009 unit volume outlook. As John mentioned, we believe for the year we're going to be down negative 18% to negative 20%, as we saw negative 19% and negative 24% in the first two quarters of this year for unit volume declines, and that would be an implied negative 14% to negative 18% in the second half of this year. And in essence it represents really the run rate that we're experiencing on unit volume, and it -- and when you have the -- the easing of the comps in the back half of the year, as we were down negative 7% and negative 10% in the third and the fourth quarter of 2008, is why that number gets smaller compared to what experienced in the first half of the year. But the impact of each point of decline, as we've mentioned previously, is about $0.20 EPS. So as a result, it's $1.00 negative EPS to our previous guidance provided.

That being said, you heard a lot of the good performance we experienced in gross margin rate, and with 36 -- 39.6% in the first quarter and 39.9% in the second quarter. We expect that in the second half of the year we will experience similar rates, probably in the range of 38% to 39%, that will drive a margin rate improvement and offset about three-quarters of that negative unit volume that we're -- that we're expecting to experience for the year. And that's really the trend that we've seen in the first half of the year, so we're expecting that to continue in the back half of the year as we see those benefits in gross margin.

That being said, we felt that there still was a gap to our objectives of achieving $2 and $2.50 EPS that we laid out in April of about $0.25, so we embarked on the new restructuring program that John mentioned earlier that would provide about $25 million of benefit in the back half of the year. A little bit of detail on that, the whole program is $50 million of annualized cost action that we executed and completed in the month of July. At this stage about 35% of it is headcount related, and about 90% of it is associated with SG&A, as John mentioned. So that results in a total set of actions of $265 million in 2009, when you combine it with the previous two sets of actions we've done, which commenced in December of 2008.

The last item on here that's changing is obviously the gain on the debt extinguishment of $0.34, which affects our -- our guidance that we provided previously. So that gives us an end result of $2.34 to $2.84 of guidance range. If you adjust for the gain, it's consistent of the range that we provided last quarter of $2 and $2.50.

All the other factors around FX, previous cost actions, acquisitions and restructuring charges are consistent with our previous guidance. We believe that the restructuring charges of $45 million is still the appropriate number for this year, as we've seen a little bit of benefit in our European restructuring program and a lower cost, and we're able to utilize that excess to pay for the current actions that we just embarked on.

Moving to free cash flow, which is a topic that many of us are interested in, as we mentioned previously on the call we believe that $300 million in free cash flow is achievable for this year, and it's based on several factors. But let me start with a little bit of historical and analytical information. John has mentioned that three of the last four years, 67% of our free cash flow occurred in the back half of the year. In this particular case, if you assume that the $300 million is achieved, that would mean that we would achieve about $200 million of free cash flow in the back half of 2009, which would imply about $225 million free cash flow.

The other factor to look at is that our second quarter is also an indicator of the year as well, and our second quarter in the last two years tends to represent about 15% of the total year of free cash flow. So if you took this year's second quarter performance, that would calculate to about $285 million of free cash flow. So that gives you a range of somewhere between $225 million and $285 million.

Why do we think we can do above and beyond that, to get to $300 million? It is really predicated on our belief that we can achieve a 10% working capital turn improvement over last year's performance of 5.9. If you remember in the fourth quarter of last year we had 5.9 working capital turns; we believe that we can get to 6.5, 6.7 working capital turns, because of the detailed plans that we've put in place in our businesses to ensure that we're driving towards those types of objectives.

Each business under the Stanley Fulfillment System processes and rhythms has those plans in place, and are being pulsed on a regular basis, and they have to do with transformational lean techniques as well as continued enhancements of our sales and operation planning processes as they mature. And really our ability to increase our dividend was indicative of our belief that we can achieve this $300 million in free cash flow.

So in summary, we believe that we're well positioned to gain market share, as we've done appropriate actions along the way to ensure that our cost base is adjusted; but we've also made certain key investments along the way that both John and Jim have indicated earlier. Our gross margin success in the first two quarters is very pleasing to us, and we believe that we can largely maintain that for the remainder of the year. We continue to be focused on paying down our debt, as I mentioned $200 million in 2009, and we feel like we're on track to achieve that so far. And then last but certainly not least, our dedication and focus on SFS; we believe that's a significant source of cash for us, and ultimately is a competitive advantage for Stanley.

So that concludes our presentation portion of the call.

Kate White - *The Stanley Works - Director of IR*

Jennifer, we'd like to start the Q&A portion of the call right now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Jim Lucas from Janney Montgomery. Your line is open.

James Lucas - *Janney Montgomery Scott LLC - Analyst*

Thanks. Good morning, all.

James Loree - *The Stanley Works - COO and EVP*

Hi, Jim.

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

Good morning, Jim.

James Lucas - *Janney Montgomery Scott LLC - Analyst*

Wanted to ask a specific question on the industrial side of business. With the inventory correction that you are seeing out there, could you maybe give us a little bit more color of what you're seeing in terms of customers just still needing liquidity and using inventory correction for that, versus what they're seeing in terms of their ability to get access to credit? And going forward, you know, are inventory levels now to a point where stockouts are potentially occurring, or is this just resetting to the new demand levels?

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

Jim, this is John, I'll start and then I'll turn it over to Jim, who is going to give you even a little more detail. Remember, we are talking industrial, and we've learned a lot in the last month or so. I would say up until then, we would have thought one-third of volume decline was due to destocking. We've done a lot of granular analysis that caused us to raise that estimate to 50%.

Importantly, a huge portion of that for us is in Europe, and it has had a tremendous impact on Facom's volume declines. That is where -- what a lot of our, let me say updated guidance or updated analysis comes from. Hard to talk about out of stocks, you know, in the industrial segment given that it is B to B, short delivery cycles, a lot of it through distribution, but I'm going to let Jim add even a little more color to that, because he has been doing a lot of work on Proto, Facom, Mac in particular, as well as a lot of our storage business.

James Loree - *The Stanley Works - COO and EVP*

Yes, I mean I think the key to the inventory correction phenomenon is really the word "caution" on the part of the customers. And it derives from both liquidity concerns, concerns about what the ultimate size of the market really is, and just overall questions that, you know, I think the distributors have in their minds about the business model that they are going to have on a prospective basis, and how much volume is really going to be there.

And nobody wants to get caught with their pants down on inventory in the chain, and what they are finding is they can -- they can have, you know, where they used to have 20 SKUs on a rack, you know, they can have -- or 20 units of a SKU on a rack, they can now have two, and order much more frequently. And to an extent that's okay, because it keeps them liquid and in business. However at some point in time, you know, our -- our -- the overall market's ability to deal with that issue or that situation changes, you know, when the demand returns and those SKUs, units, go off the rack faster, and we can't replenish them fast enough to meet the end market demands.

So I -- I think we're going to see -- in my estimation, we're going to see a fairly significant rebound in terms of this inventory restocking as opposed to destocking. I don't know when that's going to occur. We have incorporated a neutral into our outlook on a prospective basis for the remainder of the year. However, if there were to be some significant restocking, that would be a positive.

James Lucas - *Janney Montgomery Scott LLC - Analyst*

So is the key going to be order activity in terms of what you are going to get from a visibility standpoint, given that short cycle order, what they need, as opposed to building out in a way that you've seen in --

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James Loree - *The Stanley Works - COO and EVP*

I think we're -- we're prepared to respond, without question, despite the fact that our inventories are in really good shape, we are prepared to respond. The Stanley Fulfillment System has been instrumental in terms of bringing our lead times down across the various businesses, including industrial. And so I think visibility to the order patterns are -- is good.

And I think that -- what we really need in the chain is some confidence restoration, you know, at the customer level, and when they start to see signs that demand will, you know, recover at some level on a year-over-year basis, I think we'll start to see -- we'll start to see that restocking occur, and we'll be prepared to serve at that time.

James Lucas - *Janney Montgomery Scott LLC - Analyst*

Okay. And final question on this topic, when you look at -- across the multiple end markets, is this very broad-based? Are you seeing -- when you say industrial, are there any particular end markets that are jumping out? And then with regards to SFS, could you maybe give us a little bit more color of what type of lead time reductions you've experienced?

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

Yes, first of all, Jim, I say it is broad -- it's broad spread, that is why I mentioned, at -- as you know, we look at our industrial segment into sets of subsegments, industrial and automotive tools, industrial and automotive repair and, if you will, infrastructure solutions. Only the latter of those three, which is less than 20% of the segment, has long lead times. There, we've cut the lead times dramatically.

But more importantly in things like Vidmar boxes, we build a Vidmar box in a day. There's not much lead time to be cut from that. So you know our businesses very well.

In our made-for-stock tool businesses, the Protos, the Macs, the Facoms, we've taken -- already taken 25% and more out of our lead times. A lot of that has come from when and if we source components; the rest of it has just come from leaning out our factories. So it is going to vary dramatically by business. Some always room to improve but approach world-class, Vidmar being a classic example, and then 25 to 40% coming out of lead times, some of which did not start at world-class levels, for the rest of our industrial businesses.

Operator

The next question comes from Eric Bosshard from Cleveland Research. Your line is open.

Mark Kosnarek - *Cleveland Research Company - Analyst*

Good morning, guys, it is actually Mark stepping in for Eric.

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

Hey, Mark.

Mark Kosnarek - *Cleveland Research Company - Analyst*

In terms of the security segment, organic was a little bit softer, and just kind of looking back to last quarter, I think you guys thought that for the year it would run around that down mid-single digit rate, so second quarter a little bit softer than that. How should we think about the second half organically within the securities segment? Is 2Q a better run rate, or is first quarter a better run rate for the business?

Donald Allan - *The Stanley Works - CFO and VP*

I would say, Mark, the second quarter is probably not the best run rate for the back half of the year; it's most likely a blend of the first half and what we're assuming for the back half of the year.

Mark Kosnarek - *Cleveland Research Company - Analyst*

Okay. And within that piece of the business, pricing in total for the company is still favorable but slightly less favorable than 1Q. Was the pricing pressure relative to the first quarter within the install business in security, or are you seeing some pricing pressure elsewhere?

James Loree - *The Stanley Works - COO and EVP*

Oh, the pricing pressure within security is definitely, you know, on -- on the install business. In particular the -- the contract national accounts pricing is -- is under a -- a lot of pressure. You know, as -- as our customers, just like we look to cut costs, they are going after their vendors and clearly -- and clearly when they have leverage, purchasing leverage, they are willing to exert it much more so than in a typical environment.

So we're not seeing dramatic pricing pressure in the core commercial accounts, which is good, and the margins are holding up well there, and we're walking from some business in national accounts where we're just not -- not capitulating on price to the extent that some of the other competitors are. And I -- you know, we -- we believe strongly in our value proposition and the performance of the business substantiates that, and so we're trying to -- to hold our prices at a fairly constant level in that business, even in the national accounts.

Mark Kosnarek - *Cleveland Research Company - Analyst*

Okay.

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

Mark, this is John, I'll just add onto that so you don't get -- so you don't get cut off. You know, it may appear on the surface to be a rather bold statement that we're holding -- that we're holding prices, particularly in national accounts, and not theoretically, in reality losing some business. We are cautiously optimistic, and there is a lot of historical precedent, to say that much of that business will come back to us, when whoever's taken it, regardless of whether it is a large national competitor or a small local competitor on the national accounts level, it is much more likely to be a larger competitor, you know, when and if they fail to deliver at the level that we've delivered in the past.

You know, and it is clear in the industry, our attrition rates are not among the lowest, they are the lowest in commercial security. There is a reason for that. And a business that -- an account that is won on price will -- can and might well ultimately be lost on service. We'll get it back on our terms at our price. That does take some time. But we're very patient in that regard, because we think that's the right strategy for a business that's such an important part of our future.

Operator

The next question comes from Sam Darkatsh from Raymond James. Your line is open.

Jeff Musser - *Raymond James & Associates - Analyst*

Thank you. This is Jeff calling in for Sam. First question surrounds restructuring. You mentioned 35% of it is head count; of the other 65% of it, is any of that discretionary spend that you would expect to come back faster, you know, if units stabilize?

Donald Allan - *The Stanley Works - CFO and VP*

Jeff, this is Don, we -- I won't -- we wouldn't expect any of it to come back faster than the previous restructuring programs we've done. We believe that these particular items are very similar items to what we've done before, so additional cuts around T&E and other discretionary spend.

You know, it is a real question mark for next year, how much comes back. And -- and it's really about us as a management team and how we control it and what decisions we make, and what we allow to come back. And it is really going to be dependent upon what our ultimate thoughts are on the end markets, and our revenue projections for next year.

So there will be some cost pressures that we talked about before around certain employee benefits that could be $40 million to $60 million. But it's difficult to really know of the carryover benefit we're getting, how much of that comes back, as you say, or what pressures we have that offset it, because it is really going to be dependent on our decision on what we allow to come back, and it is going to be based on our revenue protections.

Jeff Musser - *Raymond James & Associates - Analyst*

Okay. Second question, the improvement in gross margin, or the change, old guidance to new guidance for gross margin I assume is mostly mix. But my question is the second half degradation in gross margin that you are guiding for 100 BIPS or so; is that all related to price? And can you talk about the price versus material inflation relationship, and where you see that going in the second half?

James Loree - *The Stanley Works - COO and EVP*

Yes. We -- actually benefited on a year-over-year basis by about -- slightly over 300 basis points from a combination of productivity projects, price and acquisition mix. Some of those aspects will abate as time goes on, because the -- in particular, price, the vast majority of our pricing was implemented in the second and third quarter of last year. So when we get when we look at a back half, year-over-year analysis, clearly, you know, price will not be increasing sequentially at the same rate.

That said, inflation, you know, is a crapshoot, and that's why we have a range because we -- we've had modest deflation in this quarter, very modest, but there was a point in this quarter where we thought we were going to have inflation. So, as you know, in the -- in the March/April timeframe, commodity prices were spiking; they subsequently abated, and it's not clear from here, you know, what commodity prices are going to do. A lot depends on the perception of the economic recovery and when it occurs, and what the speculators do and so on in the commodity markets. However, that clearly is the reason that we have a range and, you know, what we feel is a -- a relatively conservative range, you know, for the gross margin that we indicated.

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

But, you know, this is John, importantly it is a sequential decline arithmetically but from, if you will, 39.5% to 38.5%, the midpoint of the range that Don required -- I'll live with that in this environment, if we can continue to achieve it. But, you know, arithmetically you are correct, and I think Jim explained the rationale -- the rationale behind it.

James Loree - *The Stanley Works - COO and EVP*

And when you think about the pressure on unit costs that is created by this volume issue that we have relative to the marketplace, that -- that also is a big variable and -- and we're anxiously looking forward to the day when we can actually have some volume to run through our factories, and benefit from the absorption of overhead that that will create. The contribution margin and the gross margin in this Company varies by about 10 points, and so that's going to really bode well for us when we do have some kind of a resurgence, or at least some kind of a -- you know, an uptick would be a better word than resurgence, in volume.

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

And then just last -- last point just to add a little color to the same subject, we've made it very clear working capital is a focus, working capital turns is a focus. It goes without saying, you know, but it's worth -- for us, but it's worth repeating; we no longer run our factories for liquidations, we are -- the mantra is sell one, replenish one is how we think about it.

And to Jim's point, with the soft volumes we're not going to simply run product into inventory, miss our working capital turns, but to the extent in a reduced volume environment we continue to basically produce to fulfill demand and nothing more, that has pressure on margins. So it all contributes, but the objective being to maintain it within 100 basis points of a 163-year record first half performance.

Operator

The next question comes from Nigel Coe from Deutsche Bank. Your line is open. Good morning.

Nicole DeBlase - *Deutsche Bank - Analyst*

Good morning, guys, this is Nicole asking questions on Nigel's behalf. First of all, if we can just go into a little bit more detail on the price inflation dynamic, if you could quantify that for the current quarter it would be very helpful.

Donald Allan - *The Stanley Works - CFO and VP*

This is Don, Nicole. We really don't want to get into that level of detail, for various reasons. I think we've been clear that price is a positive, and productivity was as well, and mix of security with a little bit of deflation, as Jim just indicated, and that's really where we would like to leave it.

Nicole DeBlase - *Deutsche Bank - Analyst*

Okay. And then if you could speak to the head count reductions, how many heads have you actually taken out so far? And then could you provide the mix between US and Europe?

James Loree - *The Stanley Works - COO and EVP*

The new set of actions are about 200 head count. So I -- I don't have the other ones right in front of me. We can certainly get that to you. About 2,000 people roughly.

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

200 on top of 2,000, so 2,200 in total, the combination of the three programs -- and this is John. That's -- that -- that is skewed toward the US. A, 60% of our revenues are in the US; and, B, as I think everyone on the call realizes, the -- the -- the costs have been -- been recognized in the charges, but in terms of cash flow, there's -- there are very rigorous and -- and serious sets of legal and procedural guidelines that one follows in Europe, and we understand them very well. We've successfully been through it in the past, and we're not going to attempt to circumvent or accelerate any of those processes and procedures. They are there for a reason. So we will ultimately get where we need to be in Europe.

The dialogue and the collaboration with the unions and the works councils have been all that we could hope for; there is tremendous reality and I think outstanding perspective on what the situation is. But they've been skewed to the US. Heads that come out later on will be -- and the costs associated with that, certainly from a cash perspective, will be skewed more towards Europe, just due to the time lag.

Operator

The next question comes from Michael Kim from Imperial Capital. Your line's open.

Michael Kim - *Imperial Capital - Analyst*

Hi, good morning, guys. Just going back to the security segment and specific to the Convergent business, can you guys talk a little bit about the increase in RMR, and speak a little bit about attrition and pricing and where you're seeing particular areas of either strength or weakness? Thanks.

James Loree - *The Stanley Works - COO and EVP*

Well, I -- I feel like we've pretty much have covered -- I'm not sure if you caught the first part of call, Michael, but we delved into that in a fair amount of detail. I you want to call offline to Kate afterwards, she can run you through it, okay?

Michael Kim - *Imperial Capital - Analyst*

Sure, I apologize.

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

Page 11 on the presentation, Michael, that is more than anyone has ever provided on this subject in a call of this nature. So if there is something beyond that that you need, let -- Kate, if she is able, will provide that for you offline, if that's okay.

Michael Kim - *Imperial Capital - Analyst*

Okay. Sorry. I missed the beginning part of the call earlier.

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

I think that you will find that pretty helpful. We did it for a reason, and the reason was, you know, your question is a valid one, but let's not do it twice.

Michael Kim - *Imperial Capital - Analyst*

Okay. Sounds good. And then just maybe more in general terms, can you talk about the framework for RMR relative to installations? Installations obviously have been, you know, under pressure from the macro environment, and how we should probably think about RMR going forward?

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

Michael it is the exact same answer. Jim spent five minutes on it, it is on page 11. Why don't you have a look at that and then give Kate a call, but hopefully you'll get more than what you need from that explanation.

James Loree - *The Stanley Works - COO and EVP*

Our hypothesis going into the call was that that would be a topic that people would want to understand, so we took the proactive step of providing that information in great detail. So I think you'll really get what you need from that and talking to Kate.

Operator

The next question comes from Ken Zener from Macquarie Capital. Your line is open.

Ken Zener - *Macquarie Capital Markets - Analyst*

Good morning.

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

Good morning.

James Loree - *The Stanley Works - COO and EVP*

Hi, Ken.

Ken Zener - *Macquarie Capital Markets - Analyst*

I wonder if you could just kind of talk about the competitor landscape -- competitive landscape specifically in tools? Given the extreme downturns that we've had, I think that you guys are managing your business very well, and at a reasonable leverage. How is it looking relative to the private label competitors that you see, whether they are European or Asian, and how has that impacted the M&A landscape that you see?

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

Well, I guess that -- that's two very different questions, Ken. If I can try to dissect them, I will. We -- we've talked about this on previous calls and, you know, other than our Stanley associates, we certainly value the Stanley brand as -- as our most important asset.

What happens in any branded category, and this is both industrial and CDIY, but particularly if you think of the Stanley brand and Bostitch brand, we're number one or two in every category where we compete, and that's a very good place to be. There are numerous recessions or periods of economic downturn over the last 30, 40 years where two things happen; private label and even generics, as you've suggested, grow, and the leading brand grows, and it is the brands in the middle that get squeezed out.

Why is that? Obviously people in the middle are trading down to private label. But the customers want and need the leading brand as a reference point, so that they can even widen the gap between private label or the retailer's brand and -- and the leading, if you will, national brand or the leading premium brand. So the -- the winners, year in, year out, through these periods of economic downturn are the number one brand, thankfully we're it in almost every category, and private label, but it is at the expense of particularly the numbers three and four brand.

How that has impacted the M&A landscape, you know, there -- you know, we've talked over time. There's tremendous, if you will, consolidation opportunity, you know, in the industry, but quite frankly there's little or nothing going on, and our view is that hasn't -- that hasn't affected it at all. Any and all companies are -- our views, you know, are very cautious in terms of protecting their balance sheets, and there's been no more or less activity than -- than we've seen in the past. So that's a long way of saying no change.

James Loree - *The Stanley Works - COO and EVP*

I mean our hope would be that the industry would consolidate at some point, the hand tool industry, and that some of these number three and number four brands, owners of these brands would want to consolidate their activities, you know, with us. But, you know, as John said it is actionability or implied; actionability is everything when it comes to that, and if there is no desire, there is no activity.

Ken Zener - *Macquarie Capital Markets - Analyst*

Understood. The second question I have, just further clarity on the -- you know the impressive benefit you guys are getting on the gross margin line. You guys were just talking about in terms of the percentage basis, but the implied $75 million, that's primarily from a more realistic view about your input costs?

James Loree - *The Stanley Works - COO and EVP*

No. It's -- it's a combination of productivity projects, price, and acquisition mix, offset -- and that's over 300 basis points, as I mentioned, offset by significantly higher unit costs related to lack of absorption in the manufacturing area.

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

Yes. Our -- our view, Ken, is we think that is something that a lot of folks are missing. We can talk about modest deflation and it looks like there may be some. Our volumes are down over 20%; our actual costs, all other things being equal, are up dramatically. I mean a 20% volume decline, and that much less volume flowing through our factories, overwhelms the -- the modest impact of any deflation which Jim and Don already suggested we're only beginning to see.

So it's taken a lot of hard work on three other fronts, you know, our normal productivity funnels, short lead times, purchasing, you name it, to -- to keep -- all the benefits to come from our SFS initiative, it has taken all of that to keep us where we are. And input costs are a very, very small piece of any -- of any positive -- any positives we've seen in the past and -- and, quite frankly, a very small piece of our belief that we can maintain within 100 basis points those margins going forward in the second half of the year.

Operator

The last question comes from Michael Rehaut from JPMorgan. Your line's open.

Ray Huang - *JPMorgan - Analyst*

Hi, guys, this is actually Ray Huang in for Mike. You guys talked about the market share gains in CDIY; I'm just wondering if you can break out or give more detail on which end markets or channels you are getting share in, and if you had any detail on any specific products or initiatives that are driving the gains?

James Loree - *The Stanley Works - COO and EVP*

The end market, you know, is defined by the name of the segment, which is construction and DIY, and this is no particular differentiation between construction and DIY. The share gains are coming in the US at large retailers, in particular one very large retailer, the largest retailer in the world. And, you know, we have substantial share gain there. And then in Europe, we have a number of smaller customers, when taken in the aggregate, representing a reasonably significant share gain.

Ray Huang - *JPMorgan - Analyst*

Okay. And then if you kind of think about CDIY stabilizing in the back half of the year, how we should look at the margins on -- in that segment? Are you kind of thinking in like the 10% range for the back half of the year.

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

We're not going to forecast margins by segment. We never have. I think what's important, that Jim Loree mentioned in quite a bit of detail when he went through that segment, is three sequential quarterly increases that we're very encouraged by, and -- and that's coming not just from the cost benefit of combining our former consumer tools and storage business with Bostitch, but also by essentially having a larger combined team to focus on the same end markets.

And we're seeing -- the cost benefits, I say, are fairly obvious and straightforward, they're easy; but the share gains have come or are beginning to come, and we think will come in the future, due to the fact that we have the strength and strength, the combined professional organization, a product development process, focusing on the same customers and the same end markets, which was the logic for putting these two businesses together in the first place. So, you know, thus far it has been, you know, probably, pick a number, three quarters cost, 25% volume; going forward, that's going to be about 50/50, which validates the rationale for combining those businesses in the first place.

Operator

And at this time I would like to hand the call back over to Miss Kate White.

Kate White - *The Stanley Works - Director of IR*

Thank you, Jennifer.

We wanted to close today by letting you know how you could gain access to members of Stanley management team throughout the remainder of the year. We will be participating in a number of industry conferences, as well as hosting an Analyst Day in November at the New York Stock Exchange. And we've laid out these locations and dates in slide number 20 in our presentation.

This concludes The Stanley Works second quarter 2009 conference call. We thank you for your time today. Again, if you have any questions, please feel free to either e-mail or call me.

Operator

This does conclude today's conference call. You may now disconnect.