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PRESENTATION

Operator

Good morning. My name is Andrea and I will be your conference operator today. At this time, I would like to welcome everyone to The Stanley Works fourth quarter and full year 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). Thank you. I would now like to turn the call over to our host, Ms. Kate White, Director of Investor Relations. Please go ahead.

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

Thank you, Andrea, and good morning everyone. Thanks for joining us today on The Stanley Works fourth quarter and full year 2009 conference call. 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 fourth quarter earnings release, which was issued this morning, and a supplemental presentation, which we will refer to during the call, are available on the Investor Relations portion of our website, Stanleyworks.com.

This morning, Jim, John, and Don will review Stanley's fourth 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 will be available beginning at 2 PM today. Replay number and the access code are in our press release. We've also added a new option for to you be able to listen to the replay. You can download it as a podcast from iTunes and even set up a subscription for all future replays of calls that we post. You can access this within iTunes itself by typing in Stanley Works in the search window or from the link on our website.

This should be posted within 24 hours. As always, please feel free to contact me with any follow-up questions after today's call at my number, which is 860-827-3833.

Lastly, 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 risk and uncertainty. 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 the 8-K which we have filed with today's press release and in our most recent 34 Act. With that, I will now turn the call over to our CEO, John Lundgren.

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

Thanks, Kate. Let's start by looking briefly at some highlights from the fourth quarter and the full year 2009. First, as relates to the fourth quarter, we reported diluted EPS of $0.89. That does exclude $0.22 related to the transaction and integration planning cost, primarily associated with the Black & Decker merger. Diluted EPS from continuing operations on a GAAP basis then was $0.67. I think important to note, $0.04 to $0.05 of the $0.89 was an unanticipated tax benefit, and the remainder of the tax benefit was included in our guidance as explained in the press release, and that we'll cover in a little bit more detail later on in this morning's presentation. So for the year, diluted EPS was $2.80 versus $2.74 in 2008. Again, excluding the $0.22 per share in the fourth quarter related to Black & Decker transaction, fourth quarter EPS was $0.89, and for the year that brought us to $3.02, which did include the gain of the debt extinguishment reported in the second quarter of 2009. So EPS for the year up 10% versus 2008, excluding the fourth quarter charges, and 2% on a GAAP basis including those charges.

Quarterly gross margin rate of 40.7% was quite encouraging, and it was our second consecutive quarter above 40%. Pricing, cost productivity initiatives, and commodity deflation all continued to offset the impact of the volume underabsorption. That led us to a record annual gross margin for the year of 40.4%. Cash flow was encouraging as well -- $446 million for the year, up 6% versus 2008, and working capital reached 7.9 turns, another record. That's due to the ongoing success of the Stanley Fulfillment System that Jim Loree's going to talk to you a little bit more about in his part of the presentation.

Looking very briefly at some of the segment highlights, Security achieved 20% operating margin while absorbing a 4% revenue decline. The CDIY segment profit improved $17 million or 71%, while the Industrial profit rate improved sequentially to 11.3%. Don Allan's going to give you more detail on the segments in his portion.

Last, but certainly not least, the planning for the pending combination with Black & Decker remains on track. Close is expected at the end of the first quarter or the beginning of the second quarter. And I'm going to spend a few minutes updating everyone on that, which may help or even preempt some of the questions and everybody will be on the same page.

Two slides on the transaction. The first one is just a bit of a refresher, and the second one think of it as an update. The benefits of this combination are compelling to say the least. The strategic benefits, which we've talked about before, will make us a global leader in both hand and power tools with an iconic brand portfolio and over 250 years of combined history. We'll have greater scale in both hand and power tools as well as storage, mechanical security, and engineered fastening; a world class innovation process; global, low cost sourcing and manufacturing platforms; and additional presence in high growth and emerging markets. Both companies are growing rapidly from a low base in India, China, and the rest of Asia, and Black & Decker as many of you know brings a very strong presence in Latin America to the combination.

The financial benefits we believe are equally compelling. It will be highly accretive, with $1 per share of accretion projected by year three, $350 million in cost synergies on an annual basis, with the opportunity for margin improvement both from the cost synergies as well as embedding SFS across a larger volume base. Free cash flow is anticipated to be in excess of $1 billion, with $1.5 billion in EBITDA by the third year of the transaction. And of course with that cash flow, we'll have increased resources to invest in Security solutions, engineered fastening, other high growth platforms as well as organic growth at the core businesses. And as we've stated before, our capital allocation going forward is planned to be similar to what's it's been in the past, with roughly two-thirds of our cash flow focused on strategic accretive acquisition and one-third being returned to the shareholders in the form of both dividends and selected stock repurchases. Strong balance sheet is also important. We had a strong balance sheet going in and it's going to be strengthened further over time.

In terms of an update on the transaction, what have we done to date and what's still left to be done. As you know, we have received HSR approval. The period expired on December 29th, and we've established January 12th, 2010 as the record date for shareholders to be involved in voting on the transaction. We filed a preliminary S4 with the SEC for review and we're waiting comments on the second version of that document. We've announced an integration team with co-leaders from both Stanley and Black & Decker -- I'll touch more on that in a minute -- along with a new organizational design and a senior leadership team for the combined company. Let me say what I can about that now. We've certainly had a lot of questions and we want to be sure everybody's on the same page and has the same information.

The senior corporate structure going forward was in fact identified in the press release. Jim Loree, Don Allan, and myself will essentially have the same positions in the new Company going forward as we have at Stanley. We have established a synergy steering committee that Nolan Archibald and I will co-chair, and Jim, Don, along with Mark Matthew, our head of Human Resources, and Massimo Grassi, our head of our European Business and our Global Industrial and Automotive platform, will sit on that synergy team. As I mentioned, we've established an integration management office that's co-chaired by Brett Bontrager, a tested and proven Stanley executive who was involved in integrating Facom, among other things, and most of our major acquisitions, along with Tony Milando from Black & Decker, who is currently Vice President of Operations for the worldwide power tools and accessories business. Under Brett and Tony, there are 14 dedicated teams focused on various businesses and functions, with one member from Black & Decker and one member from Stanley on each of those teams. And importantly, no business leaders are on those teams, and that the business leaders will be charged with focusing on the core business and continuing to do what they do best, and the integration teams will collaborate closely with them to ensure that we achieve the synergies.

Looking quickly at the segments, going forward, our intent is to report externally in the same three segments that Stanley currently reports. In Security, the Convergent Securities Solution business will essentially remain intact, while the Black & Decker Hardware and Home Improvement business will be integrated within the Mechanical Access Security business. On the Industrial segment, that essentially will remain intact as well, with the global platform leaders in Industrial and Automotive Repair and Infrastructure reporting to Jim Loree as they do now. The Black & Decker Engineered Solutions business, probably better known as Emhart, will also remain intact, with Mike Tyll who currently heads that business for Black & Decker, managing that business and the Stanley Assembly Technologies business will be integrated within Emhart. And finally, the Black & Decker Worldwide Power Tools and Accessories business along with the Stanley Construction and Do It Yourself business, will become the new CDIY segment. It will be under the leadership of a Stanley executive and six of the top ten executives in that organization will at this stage are planned to come from Black & Decker. That will ensure that the knowledge, the skillsets that are unique to Power Tools as well as the simply the knowledge that exists within the business will carry forward in the new organization. Collaboration to the extent we've been allowed to do so has been quite encouraging so far.

Lastly on the geographies, looking at Europe, Asia, and Latin America, existing leaders will focus on either the core business or growth opportunities, depending on the geography and there's somewhat equal distribution at this stage of Stanley and Black & Decker executives. That's all that I'm really able to say about the organization at this stage. But the structure as announced is consistent with the dual objectives of protecting the core franchise while integrating the two companies as rapidly and as prudent as we can, as we can be, to achieve the potential synergies that are available from this transformational opportunity.

Jumping back quickly to the slide, what's left to be done, well, we need to continue to execute on our 2010 goals, and of course we need to obtain the remaining regulatory approvals from the EU as well as other foreign jurisdictions. We need a shareholder vote. We need approval from both Stanley and the Black & Decker shareholders. And of course we need to retain key talent on both sides of the organization. That all leads as I mentioned to expected close somewhere near the end of the first quarter or beginning of the second quarter. Solid progress we think we've achieved on all fronts. Integration planning's well underway, and hopefully that answers a lot of questions that you might have had, and we can focus some other things in the rest of the call.

Let's get back to Stanley's fourth quarter. Looking at revenues around the world, they declined in most of the the world, as you'll see -- in the US, on the left hand side, second from the top, revenues down 14% both as reported and organically, excluding any effects of currency. And in Europe, down 9%, down 16% excluding currency and acquisitions. Asia and Australia did show some growth, and it's a complicated chart with a lot of numbers on it, but we're trying to provide you with as much data as possible. Hopefully the message is clear. Revenues remain down, but the rate of decline was lower and revenues actually increased on a sequential basis as shown on the next slide.

Looking at fourth quarter revenue by segment, again, a lot of data on this chart, but what I really wanted to point out is some of the trends by segment to supplement what we just showed you by geography. Volume and sources of growth is identical to what we listed in our press release in terms of the do-to or the walk. But if you focus in the fourth quarter, you see volume down 16%, for the entire Company. Offset by price, was 1% favorable, so organic growth or decline of 15%. Currency helped 4%. There was no impact from acquisitions in the fourth quarter as previous acquisitions anniversaried by the end of the third quarter. So total revenues down 11%. That is all in our press release.

Looking at the segment results, just a couple things to focus on. CDIY down 8% in total, 14% volume decline, which was -- the 8% revenue decline was obviously a significant improvement on a sequential basis. Security held up fairly well. Volume down 9%, revenue down 4%. So the total Company as you see down 11% revenue, volume down 16%.

Moving on to earnings, at a high level, you see the 11% volume decline, but still translating to $0.89 of earnings, which is a 39% improvement versus the fourth quarter of 2008. Within the fourth quarter of 2008, as stated in our press release, there were $0.59 of restructuring cost, taking GAAP earnings to $0.05 a share. This year, per our press release, $0.89 of operating earnings, $0.22 of charges related to the Black & Decker transaction costs, resulting in GAAP earnings of $0.67.

Looking at margins, nice improvement of 210 basis points that both Jim and Don are going to talk about how that worked by segment as well as what's driving that margin improvement. And looking at the tax rate of minus 4.4%, you see a little bit of an explanation in the box. It's the effective resolution of some income tax audits. The tax rate would have been 22%, excluding the $14 million benefit. And again, as referenced in the press release, $11 million of that $14 million benefit was due to the closing of US audits through 2006. The other $3 million was a favorable adjustment in the UK around the deductibility of certain interest payments. And as you know, we're not allowed to, based on our recent FASB rule changes, to release any of those reserves until the audits are formally closed. The audits closed in the fourth quarter. We released the reserves, and that's the impact as it related to EPS.

Let's turn it over to Jim who is going to talk to you about some very encouraging margin performance that's driven by a combination of cost control, targeted investments, and most importantly, the benefits of the Stanley Fulfillment System.

Jim Loree - *The Stanley Works - EVP & COO*

Okay. Thanks, John. As you indicated, one highlight for 2009 was the extraordinary performance in the area of gross margin. We achieved 40.4% for the year, a record, with a 40.7% rate in the fourth quarter. For the full year, that's a 260 basis point increase over prior year. And this was achieved with the backdrop being the worst economic conditions in 60 years. And the 2009 performance as well as the long-term trend, positive trend, is really a function of four factors. One is the tight operational management across our businesses as it relates to productivity projects, supplier management, price realization, product mix, and new product vitality. Secondly, it's the strength of our value propositions for our customers able to get paid for those, and then we also are benefiting quite extensively from the implementation of the Stanley Fulfillment System, which I'll talk about more in a moment. And then finally, the deliberate shifting of our portfolio into higher margin, higher growth areas. And now as we look forward, the challenge will be as we merge with Black & Decker, and their gross margin's in the low 30s. So on a weighted basis, when we put the companies together, will be right around 35% or so, and we need to begin this march forward over the coming years to get the combined Company back up to these levels over time. And that will be an exciting challenge that we'll take on with the integration process.

Now, moving to working capital, I have to say our fourth quarter working capital performance was a very pleasant and positive surprise. Coming into the end of the year, we were confident that we had plans in place to achieve mid to upper six turns for the year, and we basically blew that number away with a volume performance which was essentially in line with what we were expecting. And we achieved 7.9 turns, a feat which I think will put us in good stead with Best-in-Class as it relates to our peers. It was a two turn increase and up almost three turns versus Q3 sequentially, and it was a major driver behind our $446 million of free cash flow, which was our second best ever free cash flow performance. Again, in this very tough economy. As you can see, inventory dropped 15 days, receivables dropped 11 days. We were able to hold payables, so nice performance you across the elements and in total, a very significant $243 million decrease in working capital.

Moving to the how, it's all about the sustained process improvement through the Stanley Fulfillment System. And with Black & Decker as we integrate, we see an opportunity here as well in the coming years. They've been making good progress in working capital as well, but not as dramatic and not as quick, and I think we can assist them with that and really unlock several hundred million dollars worth of cash flow.

And here's a little more information and color on SFS. As I mentioned before, it has four elements. Let's start in the upper right hand side with the SNOP process. And that's all about keeping supply and demand in balance. Then we move to common platforms in the lower right. That is basically standardization of process and IT platforms to provide scalability and efficiency. Now, this is an area where conversely, Black & Decker can help us because they made excellent progress in this area in their worldwide Power Tools and Accessories business, which is about 70% of their Company, and the pending combination will actually accelerate Stanley's standalone ability to drive towards common platforms. We're very excited about that.

Then we move to the lower left hand part of the slide and we talk about transformational lean. Stanley's trademark transformational lean methodology combines traditional supply chain and manufacturing lean with back room, and then combines what I call incremental lean, which is what most people do with respect to lean, with even more powerful application of lean to game changing transformation of business models in order to create competitive advantage. In this area, it's early days for us. We have some really interesting experiments going on and implementing here. We made good progress on the incremental part. Now we move to the business model transformation part. And we see tremendous opportunity here in the coming years. Then finally, complexity management in the upper left. It's all about eradicating complexity in everything we do. Except where customers gain value from complexity in what we offer, and then it's about providing it most efficiently and getting paid for it. Those are the four elements of the Stanley Fulfillment System. They work in concert. They've been working well. It's early days as we look at the implementation of the system, and we're very proud of the accomplishment so far, but there's many, many more to come in this area.

My final slide today is about the brand. There's several key messages here. Number one, the spending is up. If we look at the spending -- it's not on the chart, but if we look at it over the 2005 to 2009 timeframe, we were averaging about $21 million a year of spend. That's in stark contrast to the 2001 to 2003 timeframe, when we were investing $10 million a year. What we achieved from 2005 to 2009 in terms of unaided awareness improvements, and frankly improvements across the spectrum of various measurements of types of awareness, in 2005 we had a 27% unaided awareness number. That went to 35% in 2006, 41% in 2007, 43% in 2008 and finally 48%, a big increase this year, and we're currently approaching the level that Stanley had at its peak historical level achieved in the early 1980s of 55%. So lots of good progress in the last five years.

And one of the other themes is that we're trying to spend our money much more wisely and get the biggest bang for our buck. So very little TV advertising and then spreading it around several different areas. The latest initiative that we have is we have become the official tool provider of the Walt Disney World Resort and we have a partnership with Disney which is a 10 year alliance. It brings branding in the parks, B2B opportunities, and other elements with a select group of alliance partners. We have construction wall signage throughout the Walt Disney World Resort. Stanley, Mac, and Vidmar products are highlighted in the lights, motor, action garage. We're also providing cabinets, tools, branded benches, cabinets and tools, and accessories for the [test track line Q area] and the ride itself. So that's very exciting and just getting underway.

Of course, we continue to be a NASCAR sponsor. We have sustained brand exposure over 38 weekends, with primary sponsorship in 20 races, extensive customer, and user activation in numerous race related in store and on track promotions and a very healthy menu for 2010. Last year's big story for the brand awareness moving the needle was the Major League Baseball sponsorship. In 2009, we had 11 teams. We're going to add one in 2010, thus, giving us signage in 40% of all the games. And we had really placed our signs strategically to maximize television exposure, and we love our and thank our Hartford neighbors, the ESPN folks, for the Sports Center coverage of our brand and its saturation that we get from all that exposure. Then of course last year we also began sponsoring the English Premier League, which is the number one soccer league in the world, and 650 million people around the world watch that every week, and it's an exciting initiative.

So now I'll turn it over to Don Allan, who will take you through some of the numbers.

Don Allan - *The Stanley Works - VP & CFO*

Thanks, Jim. The next page is a walk of SG&A in the fourth quarter. As we typically try to show you each quarter, we take last year's SG&A and walk it forward, and if -- I'll start with the right side of the chart, if we look at the cost reductions that we've done throughout the year, just as a reminder, in total we reduced cost by $265 million in 2009. Of that number, about $150 million impacted SG&A and the headcount impacted was just under 3,000 individuals. So in the fourth quarter, we saw a $37 million benefit of that, which is 13% reduction to the base versus the fourth quarter of 2008. And then looking at some of the increases on the left side of the chart, we did have some integration costs associated with the planning of the merger of Stanley and Black & Decker of about $5 million. FX was a negative impact year-over-year of $10 million, and then we continued investments in SG&A. Jim just spent a fair amount of time talking through the brand investments and the significance of that. As many of you are aware, we made investments in our Security businesses to put more feet on the street and focus on certain share gains we can achieve. And then as we began to restate some of of our employee benefits in the fourth quarter that we suspended earlier in the year, we begin to see some cost increases there. So the net result is about a 2% decline in SG&A and we continue to see the impact of our reductions in the fourth quarter.

So now I'd like to spend a little bit of time walking through the segments. We start with the Security segment. Once again, Security was the gem of the quarter. In the four quarters of 2009, they've experienced in essence single digit revenue declines, but have been improving their profit rate throughout the year and year-over-year as well. So if we look at revenues, as John mentioned, revenues were down 4%, organically down 7%. So a consistent trend that we've seen throughout the year. The good news is the segment profit was actually up 4% on that small revenue decline, which resulted in segment profit rate of 19.9%. So just under 20%, which was -- off of last quarter which was close to 21%. So 150 basis point improvement versus the fourth quarter of 2008.

Looking at the two sub businesses within our segment, Security segment, starting with Convergent Security solutions first, revenues declined similarly in line with the total segment, single digits. They continue to see weakness in installation revenues, and healthcare capital expenditures affecting some of the small healthcare businesses in this business. And that continues to be a constraint as we move forward. The good news is our RMR, recurring monthly revenues, continues to grow. We saw growth in the fourth quarter, again, in the low double digits range. So, as we move forward, looking at profit rate and revenue trends I'll spend more time later on, but we've seen a continual trend in the Convergent business of improving their profit rate and performance as they've really been focused on the integration of the acquisitions, driving the benefits and the cost reductions, productivity, and their cost base, and then obviously the mix towards more RMR versus installation improves their profit rate as well.

On the Mechanical Access side of the segment, similar story, but slightly different reasons for them. Revenues declined a little bit more significantly than we saw in the Convergent side, as they have been affected by the slowdown in commercial construction more than we've seen in Convergent. However, they've been very focused on retaining and maintaining certain national account customers and that's something that we will continue to be focused on as we go through this slowdown in commercial construction. Great story for them in line with the overall working capital story for the Company is that working capital turns for MAS were up 14.7%. Along with that, they improved their fill rates. So last but not least, their profit rate improved as well through price realization, the deflation that we saw in commodity prices,and then the continued cost reduction that they've done throughout the year.

Moving to the Industrial segment, Industrial as you know throughout the year has really suffered on the top line. They've seen significant inventory corrections throughout the supply chain to our end customers. And in the fourth quarter, we did see significant revenue declines again, although not as significant as we saw in the previous three quarters of 2009. So revenues were down 23%, organically down 26%. And the segment profit was only down 14% versus that revenue decline, as we did see many of the cost actions that we started in Europe in the spring of 2009 were completed in the fourth quarter. So we we saw the benefit of that in the segment profit. And as a result, the segment profit rate was at 11.3%, which was a sequential improvement from the third quarter, where it was at 9.2%. So we saw a nice impact of those cost actions coming through in the fourth quarter.

As I mentioned, we did see significant destocking trends throughout the year. We believe that they have ceased in the fourth quarter in the Industrial segment. And I'll talk about more what we think that means for next year as -- later on in the presentation. Facom's revenue decline has slowed to 11%, where we saw significant declines in the previous quarter in the mid 20 to 30 percentile range and they've been very focused on their new product development along with the Proto business and how we can actually gain share in this type of declining environment, and that continues to be something that's always been significant in the Facom business and will be going forward.

The last item to mention is the Mac tools business. Mac significantly improved their profits year-over-year, and that was despite an 18% drop in their unit volume as they were very focused on price realization and actions with the end customers and cost reductions.

CDIY had a nice quarter as well in the fourth quarter as we continue to see and experience further stabilization in this segment. The revenues were down 8%, as John mentioned. Organically, they were down 13%. And so in the first three quarters, revenues were down 25%, 28%, and 23%, and now only down 8%. Part of that is certainly the comps that we're comparing to in the fourth quarter of 2008, but it's also an improvement on a sequential basis. So we are seeing nice stabilization and the potential for some growth as we move forward. Segment profit up 71%, really being driven by the integration of the Bostitch business into Consumer Tools and Storage throughout the year. Significant productivity within the plants, some of them associated with Bostitch but also just the normal productivity programs that we implement. And then certainly SG&A actions that they've taken have assisted in getting to almost a 12% segment profit rate in the fourth quarter. Last thing I'll mention here on CDIY is that the working capital turns improved to 7.9 turns. That's almost a two turn improvement versus the prior year. So clearly, SFS is really taking hold in our CDIY segment.

So next, on the next chart I would like to spend a little bit of time talking about some of the key trends in the three segments as we move forward. If we start with Security, the way this chart works, we showed this the first time for you last quarter, is up top the yellow line represents the segment profit rate over the previous two years and then the gray bars represent the unit volume decline within revenue. So in Security, as I mentioned earlier, installations within our Convergent business are showing some signs of slight improvement in Europe, but they continue to be very weak within the the US and that will be something we continue to monitor as we go into 2010.

Commercial construction continues -- the slowdown in commercial construction continues to impact both businesses, but even more in our mechanical access business. So we're beginning to focus on other growing areas such as education and healthcare verticals to try to offset the impact of that as we move forward. We would expect that any slowdown or recovery in commercial construction market would probably lag a recovery in the residential construction market. So it appears that residential construction has stabilized and we'll see as we move forward what the timeframe of both those recoveries are. And then last but not least, we believe our profit rate will likely continue to be very strong in our segments as we continue to be focused on price inflation management as well as effective cost management. And, trying to gain share in all different areas as much as possible.

Industrial, Industrial clearly is lagging behind both businesses and lagging behind CDIY. We do believe that the vast majority of the inventory destocking we saw is behind us. Industrial production worldwide continues to be up, so we do believe that will ultimately have a positive impact on our business moving forward. But we are cautious as we move into 2010. We believe the destocking is behind us as I mentioned. And there is a suggestion of a possibility of improvement, as certain restocking may need to take place in the segment because of the low inventory levels throughout the supply chain. But we'll be focused on top line weakness and really trying to maintain our profit rates that we experienced in late 2009, and ensure that our cost base is appropriately adjusted and maintained to where it is today. Profit rate will likely -- has likely bottomed out in the third quarter in the low 9 percentile range. We think that it will likely continue moving forward, a trend that we saw in the fourth quarter.

CDIY clearly is being -- has stabilized the segment as I mentioned. And as many of you know, this segment is impacted by housing starts and consumer confidence. And so we believe there will be modest growth in this segment in 2010. We do think the growth in the US will be muted and emerging markets will be much stronger. But it's something that we'll keep a close eye on to see if there's a stronger recovery as we move into 2010. Again, being very focused on new product development, innovation, our marketing, being the key driver to our top line, gain as much market share as we can in this difficult environment. And then profit rates continue the migration back to historical levels in 2010. So that's the segments.

Let's spend a little bit of time on free cash flow, which is the next page. Jim touched on the significant working capital performance of 7.9 turns which resulted in over $200 million of working capital positive cash flow in the fourth quarter, and for the year, $226 million. The net result of our earnings and our working capital turn performance offset by our planned capital expenditures was $263 million of free cash flow in the fourth quarter, which is up significantly over $100 million versus last year's fourth quarter, mostly due to the working capital performance. And then for the year, our free cash flow was $446 million, up almost $25 million versus last year, or 6%, which is a significant performance considering the revenue pressures that we saw throughout 2009.

Next, our balance sheet. As many of you are aware, we had a plan to deleverage ourselves in 2009 by $200 million. We slightly overachieved that, where our debt went down $229 million, and our adjusted debt to capital is right around 30%, which is exactly what we were targeting for the year. So we're very pleased with that. Obviously the cash flow that we experienced and the significant working capital turn improvement really facilitated us achieving that goal.

So let's move to guidance. First thing I want to note is that the guidance that we're providing excludes any impacts of the Black & Decker and Stanley merger, and so this would be Stanley standalone for 2010. We believe that the EPS will range from $3 to $3.25 on a standalone basis, and there's certain assumptions that we put in place that align with that particular net result. Net sales or net revenues should increase 2% to 4%. That's primarily unit volume associated revenue increases. And then we believe it reflects a modest economic recovery. Each one of our segments will be impacted differently as I just described. But we think it's a reasonable modest recovery.

There's a couple nonrecurring items in 2009 that you need to factor in as you look at our 2009 EPS, and try to roll forward to this guidance, the first of which is a $0.34 gain on debt extinguishment that we did in the second quarter where we were actually able to repurchase over $100 million of our junior subordinated debt securities for about $55 million, for a $44 million gain. John mentioned the Black & Decker transactional cost in the fourth quarter of $0.22. And then the next item would be a reminder to folks that we will have a diluted impact of some shares that we need to issue around May of 2010. It will be about $0.16 EPS dilution, and it's associated with our equity unit hybrid instrument. The proceeds from that will be used to pay down other debt maturities that obviously mature at certain points throughout 2010.

The tax rate we expect to turn back to more normalized levels. That's a dilutive impact of about $0.20 to $0.25 year-over-year. And then the next item which is certainly significant -- as we've mentioned during the year, we expect about $100 million of cost carry-over from 2009 to 2010. We have $75 million here, as we have reinstated certain employee benefit costs as well as certain other costs that we are allowing to go back into the system. So it nets to $75 million carry-over. And then we have certain investments we want to make, continue to make in brand and Security as we move forward, and those investments will certainly be monitored as we move throughout the year to ensure that our top line actually performs in that 2% to 4% range.

Restructuring and impairment related charges should be flat to 2009. They were $45 million in 2009. We had $41 million in the restructuring line and about $4 million in the OM lines up above, so we expect that to be relatively flat as we will continue certain plant rationalization activities in line with SFS. And then we expect the net zero impact from price and inflation. We currently have very little inflation in our estimates, as they're based on current commodity prices, and if commodity prices increase and we experience inflation we would expect that we would be able to pass that on to our customers in a price increase. Free cash flow estimate is about $300 million to $350 million. We're estimating a relatively modest improvement in working capital for Stanley, as we will be investing a lot of time in the merger of Stanley and Black & Decker and also trying to implement a lot of the SFS principles within the new Company. And last thing I'll mention here is that we still are committed to the financial guidance provided with respect to the new combined Company of Stanley and Black & Decker that we rolled out in November of last year.

So in summary, we continue to really move forward on a rigorous integration planning for Black & Decker. It's something that a lot of us are investing a great deal of time in at this point. We're very much focused though on making sure that our core businesses continue to perform strongly and we're focused on market share gains, customer service, and keeping our fill rates up and improving them. We do see modest signs of growth potential within CDIY, and that's encouraging. But we are being cautious as we move forward here, and make sure that if a market recovery happens, we're ready and prepared to handle it. But if it doesn't, we have contingency plans in place to react accordingly. SFS is going to play an integral role in really navigating any significant upswing in demand that we experience as well as the successful integration of Black & Decker. We believe we're ready to serve our customers in the event of any volume surge that might occur throughout the year. That concludes our presentation.

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

Andrea, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Eric Bosshard from Cleveland Research. Your line is open.

Eric Bosshard - *Cleveland Research Company - Analyst*

Good morning.

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

Hey, Eric.

Eric Bosshard - *Cleveland Research Company - Analyst*

Two questions. First of all, can you talk about the source of the 2% to 4% revenue growth? You seem optimistic about some progress in CDIY and a little bit more conservative in the other two segments. I'm just wondering if you can talk a little bit about the why -- the 2% to 4% revenue expectation and where you expect that to come from? And then in the event that I get cut off, secondly I'm just interested in your thoughts on free cash flow, especially in light of the 6 million additional shares coming out in 2010 and if there's any consideration to buy back stock to offset that? Thanks.

Don Allan - *The Stanley Works - VP & CFO*

Eric, it's Don. I'll answer the -- start with the first question on revenue. 2% to 4% we think is modest, as I mentioned. If we look at our three different segments, we do think CDIY will likely have some nice growth during 2010. Industrial has the potential, but we're very cautious for growth. It's difficult to see how the supply chain's going to react with our customers in that segment. And then Security, we think relatively modest growth. There will be pressure associated with the commercial construction slowdown and how long that lags on. We think the vast majority of 2010, commercial construction will be relatively slow. And then you had a question around free cash flow associated with -- ?

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

Would we consider buying back shares? Remember, that's a standalone basis.

Don Allan - *The Stanley Works - VP & CFO*

I think obviously our history as a Company around share repurchases, we evaluate those on a case by case basis. We will have a fair amount of need for cash associated with the Black & Decker Stanley merger. There's a lot of one-time costs, restructuring, and other payments that will need to be made. There's about $670 million of one-time costs. Of that, about $470 million is cash. So there will be significant cash obligations in connection with that. But we'll have to see as the two companies come together what the projections we have for cash flow are in the first two to three quarters.

Eric Bosshard - *Cleveland Research Company - Analyst*

Thank you.

Operator

Your next question comes from the line of Peter Lisnic from Robert W. Baird. Your line is open.

Peter Lisnic - *Robert W. Baird & Company, Inc. - Analyst*

I guess first question on the 40% gross margin this year, and that's in the context of volume down 20% -- how should we think about that going forward if we get basically volume underabsorption dissipates as you progress with better comparisons going forward? And then second question, on the strong free cash flow in the fourth quarter, does that have any implications for what you think you might be able to extract out of BDK and that $1 billion target that you've set?

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

We'll have Jim take both of those, Pete.

Peter Lisnic - *Robert W. Baird & Company, Inc. - Analyst*

Okay.

Jim Loree - *The Stanley Works - EVP & COO*

Well, as far as the second question, I'll start with that one. We have no idea what their cash flow looks like in the fourth quarter or what it might look like prospectively until we have a much deeper integration process and we close the deal and so forth. So it's a really difficult question to answer without the requisite information. As far as the gross margin rate goes, we're pleased with the 40%, excited about the progress. We don't see anything that suggests that on a standalone basis, the gross margin rate would go down anytime soon in the Company. And obviously there will be all sorts of things that we'll have to deal with along the way, such as as the CDIY business grows at a faster rate than the Security business, that's going to put a little downward pressure on it. We're pretty confident that we'll continue to see progress in productivity, including the effect of absorption benefits that should accrue as volume begins to come back in general. So we see those two as more or less offsetting, and then we'll continue to work all the levers that I mentioned when I went through the gross margin chart. The price, the inflation, price inflation recovery. We're still -- if you would go back to 2004, we're still almost $90 million short in terms of the recovery of inflation through pricing. So we're not building any kind of a price umbrella at all and we're not overextended in that area. However, you never know what competitive conditions are and how they're going to evolve. So there's -- we'll continue to manage that with our pricing center of excellence and all the folks we have out in the business coordinating very carefully on that one. And then we have our productivity, our mix management, our new product innovation, and as I said earlier, getting paid for the value promises. So we would like to see that 40% carry on. We think we can do it and I guess time will tell.

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

Pete, just because you won't get in for another question, this is John. Just to supplement what Jim said, with 39.9% in the second quarter, and then third and fourth quarter both above 40% in the face of the volume declines that you cited, I think demonstrates -- we strongly believe demonstrates that we have right-sized our Company to make money and to achieve a 40% gross margin in a volume environment that's 15% to 20% below our highs of 2007 to 2008. That being said, obviously we'll get tremendous leverage from any upside volume improvement, some of which will be reinvested in growth initiatives because we were really encouraged with the results of those modest investments that we experienced during 2009.

Operator

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

Sam Darkatsh - *Raymond James & Associates - Analyst*

Good morning, John, Jim, Don, how are you?

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

Hi, Sam.

Sam Darkatsh - *Raymond James & Associates - Analyst*

Two questions. The first off, you guys have taken great pains to itemize all of the cost savings opportunities with the transaction, and obviously it's a key focus of the organization. Talk about what you're doing to maintain and possibly grow market share of the combined Company, beyond just the verticals of Black & Decker strong in Latin America and Stanley strong in the automotive. It was -- oftentimes when you have these combinations you have cuts in sales and marketing and R&D departments, and it tends to hurt market share a little bit. The second question would just be, Don, what the interest expense expectation of the organic business would be in 2010?

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

I'll take the first one. Don will take the second Q1. The answer to the first one is simple. Talk to us again in April or May when the deal is closed. Your question is a very fair one. It's one where I wish we had a better answer to. It's one where I wish we could collaborate more closely with Black & Decker, because getting to know the people and the capabilities that exist within that organization has been extraordinarily encouraging. That being said, we're not legally able to coordinate and collaborate to the extent required, quite frankly, to answer your question. We can do a lot of things, but we can't collaborate on markets. We can't collaborate on strategy, even product development, anything that's forward-looking. You'll understand the legal constraints for that. While we don't essentially compete in the marketplace, the products are complementary. We are in the same marketplace. So we essentially have to think about what we're going to do, independently, until the day the deal closes and then we'll get the collective best heads from both companies together and we'll have a much better answer to your question than we're able to provide now.

Jim Loree - *The Stanley Works - EVP & COO*

Let me just further say that what we can answer is on the standalone basis, what we're doing, and just very quickly, in the CDIY business, the name of the game is -- has and will continue to be product innovation. And we just sat through several days a few weeks ago right before the end of the year of an update on what they were doing, what they've got planned for the -- for this year. And it's really exciting, continues to be a new product machine let by Jeff Ansell and his team.

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

This is on a standalone basis, again, remember.

Jim Loree - *The Stanley Works - EVP & COO*

Yes. And in the Industrial business, they've done a lot of work in harnessing the power of the combined platform. So whereas in the past we used to go to market as Mac and Proto and Facom and Vidmar separately, effective January 1st we put that all under one business leader with a functionalized organization as well as a regionalized organization where they're sharing new product development, they're sharing global strategy development and market development. So I think you're going to see a real powerhouse initiative in terms of market share emerge from them. And of course in Security we have new products in mechanical. We have the YQ product in particular in both electronic and mechanical. We have the addition of feet on the street, which Don mentioned with a significant investment in Security and all of those I think are geared along with our significant increase this year in brand investment to continue to push the needle in that area. So all in the interest of market share gain.

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

Let me have Don address your interest rate question or your interest expense question.

THOMSON REUTERS

Don Allan - *The Stanley Works - VP & CFO*

As you know, interest expense was about $61 million in 2009. We would expect it probably to be somewhere between $52 million and $54 million in 2010.

Operator

Your next question comes from the line of Jeff Kessler from Imperial Capital. Your line is open.

Jeff Kessler - *Imperial Capital - Analyst*

Thank you. With the increase that you've shown in margins relative to sales, particularly in the Convergent side of Security, I'm wondering -- what are you doing to increase your RMR component, both the quality of the RMR, as well as the absolute amount of recurring revenue that you're getting from that division?

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

I guess you almost answered the question, in that it's the quality of the RMR and the increased percentage of the RMR that is driving the margin improvement in Security. It's a bit of a double-edged sword. As our business mix improves, as we fully integrate Sonitrol, HSM, and GDP, we're getting a much higher RMR component. That in and of itself -- those three very solid companies that Brett Bontrager and the team have done a very, very nice job bringing on-board -- that's helping a lot. The double-edged sword is -- as commercial construction is down, regrettably, install as a percentage of the total revenue was also down. So that's driving a mix-based margin improvement which has been very favorable the last couple quarters. Importantly -- you understand this business well -- importantly, we need to pick up on the installations. They'll be profitable installations, but they'll be less profitable than the RMR element in order to fuel or fund that future RMR. So we're at a bit of a crossroads. We're at a really good position where we are in terms of mix. Now we've got -- with a little help of the marketplace and aggressive share gain program on the installations, we'll drive some installations to make sure the RMR pipeline stays full.

Jeff Kessler - *Imperial Capital - Analyst*

Okay. And as a follow-up to that, the last question is you've made an announcement you've settled the lawsuit with the Sonitrol franchisee group that was suing. Is that issue effectively put to bed and will the cost along with that effectively be put to bed?

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

The issue is put to bed. The cost is -- I'll go so far as to say de minimis, and we're going to move forward. A lot of noise. You follow this industry very closely. A lot of noise, but -- and a lot of sizzle, but not a lot of steak. Consider it behind us.

Jim Loree - *The Stanley Works - EVP & COO*

I would also say that we had a very, very satisfactory session with them shortly after the beginning of the year. And I think we've turned the corner now in terms of how the franchisees view us and we view them. It's a much more positive win/win approach. The proof will be in the execution, but the spirit is there.

Operator

Your next question comes from the line of Kenneth Zener from Macquarie. Your line is open.

Kenneth Zener - *Macquarie Research Equities - Analyst*

Good morning.

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

Hey, Ken.

Kenneth Zener - *Macquarie Research Equities - Analyst*

Just wanted to ask a broad question, then ask about CDIY. But first, your 2010 sales guidance of 2% to 4%, I'm wondering just conceptually how you can or any comments you have relative to the 2% flat line growth you've given for the merged companies in year one, two, and three?

Don Allan - *The Stanley Works - VP & CFO*

Ken, it's Don. Basically if you look at the Stanley projections that are in our S4, it was just under a 2% growth for 2010 that was in there. I can't speak to the Black & Decker projections going forward, or whether there was any revisions associated with that, but on the Stanley side, just under 2%. Now we're thinking a range of 2% to 4% and it's really I think an indication of some of the trends that I mentioned around CDIY and in particular that make us feel a little bit better about that.

Kenneth Zener - *Macquarie Research Equities - Analyst*

Okay. Does seem rather low. I guess the second question is on CDIY, which did obviously good margins year-over-year, but I think in the quarter sequentially it was perhaps a bit lower. Wonder if you can talk about the margin puts and takes there, given that revenue actually in 4Q was higher than 3Q. So I would have thought your absorption was there -- if you could just go into any of those details, because I think that's the one item that might have caught people's eye in the quarter. Thank you.

Don Allan - *The Stanley Works - VP & CFO*

Historically if you look at the CDIY business, there is -- although they've experienced significant underabsorption during 2009 and even the latter stages of 2008, in the fourth quarter we do historically have significant shutdowns above and beyond just normal volume trends. So we tend to see somewhat of a dip in the segment profit rate in the fourth quarter from the third quarter to the fourth quarter. That's the main driver of that.

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

This is John, Ken, because you won't get to come back on. Don's referring to the fact --- and you understand this well -- home centers are a large source of revenue for CDIY. As you know, the home centers closed their books in -- at the end of January, and as a consequence, orders and shipments are very light in late December and early January. Historically, there's always a several hundred basis point decline, all other things being equal in the margins in that segment, third to fourth quarter, which is why we don't spend a lot of time tracking sequential margins by segment and talking to it externally unless there was an unanticipated event. And to come back to the whole year, the biggest driver in the CDIY margin improvement, which we've talked about a little, maybe not enough, is the tremendous success of the integration of Bostitch within the Consumer Tools and Storage business to form the new CDIY platform. Bostitch, which is a very -- which was a struggling business and facing unprecedented volume declines, many of which were market-driven, has dramatically improved its margins within CDIY despite the fact that it's 20% to 25% less in volume. So that's a huge driver within that segment. But the sequential decline is no -- was no surprise at all to us.

Operator

Your next question comes from the line of Michael Rehaut from JPMorgan. Your line is open.

Michael Rehaut - *JPMorgan Chase & Co. - Analyst*

Thanks. Good morning everyone.

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

Good morning.

Michael Rehaut - *JPMorgan Chase & Co. - Analyst*

Couple questions. I guess I'll throw them in at the beginning to prevent getting cut off like the others. But I also wanted to just get a little more color on your outlook for next year. Obviously we're just at the beginning of the year, but as it more relates to the Security segment, where you said that -- you gave some general comments on each segment and -- but with Security you said perhaps modest growth because of the commercial construction slowdown. And I was wondering if you could first again remind us of the breakdown in terms of your exposure to commercial construction by CSS and MAS? And it appears that despite that, you're still looking for overall perhaps still a little bit of modest growth in the segment, so how you get there? And number two, I think just more broadly, if you could remind us how you think about the end markets and the longer term growth outlook over perhaps like the next five years as it relates to the comments that you've made in the past about that -- the way those markets grow and your positioning within those markets?

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

Trying to summarize the questions for Don, what is our exposure to commercial construction in our Security business? And what's our view on some of the end markets as it relates to our projection of 2% to 4% revenue growth in 2010? Don, you want to try to take those?

Don Allan - *The Stanley Works - VP & CFO*

Sure, John. Just as a refresher, there is actually a nice end market chart that I believe is in the appendix of the presentation. Kate White can get it to anyone who is looking for it. Commercial construction for total Stanley is about 11% of our revenues. You look at the Mechanical Access and Convergent business, for Mechanical it's about 12% and then for Convergent it's about 17%. So it's not a huge portion of the business, but it's certainly significant. And it's something that can have a bit of a negative impact on us and we would expect a little bit of a negative impact in 2010 from that. But there are other sectors as I mentioned, such as healthcare, education, and government, that are significant in both those Security businesses. And in the case of Convergent, healthcare is almost 23% and MAS 10%, and then government and education combined is about 14% in Convergent and about the same number in Mechanical. So there's some nice verticals in both businesses that have not been as dramatically impacted by the slowing economy, nor do we think they're going to be significantly impacted as we go into 2010. So you have a dynamic that's happening in our Security segment where they will have a negative drag around commercial construction, but we do think there's some verticals that can offset that and result in slightly modest growth for the year.

Michael Rehaut - *JPMorgan Chase & Co. - Analyst*

Then just in terms of longer term, how you think about the Security and the different end markets and the growth -- annual growth potential?

Don Allan - *The Stanley Works - VP & CFO*

I think we've always said long term that we believe the Security businesses will grow anywhere from 3% to 6%. Really depends on which component of the business. Convergent business, the electronic piece would grow at the higher end of that range and Mechanical at the lower end of the range. Who knows exactly when these economic circumstances get back to normal? But over the long term, it would be what our expectation would be.

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

One benefit of what Don said is historically, we were always in a position to say we are making a tradeoff in that Convergent was growing faster, but margins were lower. So we were balancing growth and margin within our Security platform. The team has done a really nice job, as evidenced by Jeff Kessler's question, basically getting Convergent margins up to or even above a level of Mechanical. While we don't spend a lot of time focusing on margins by segment, right now we're quite encouraged because we have a high growth, high margin Convergent Security business, as well as a very, very profitable but more modest growth Mechanical Security business.

Operator

This concludes the allotted time for today's questions. I will turn the call back over to Ms. White. Please go ahead.

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

Wanted to thank you all for spending time this morning to discuss our 4Q and full year 2009 results with us. As always, I'm here to help with any questions you may have. All my contact information is on the website. Please feel free to reach out to me if you need anything further. Thank you.

Operator

This concludes today's conference call. You may now disconnect.