

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

	YEAR TO DATE	
	<u>Dec-08</u>	<u>Dec-07</u>
NET SALES	\$ 4,426.2	\$ 4,360.5
COSTS AND EXPENSES		
Cost of sales	2,754.8	2,707.5
Gross margin	1,671.4	1,653.0
% to Net sales	37.8%	37.9%
Selling, general and administrative	1,107.6	1,038.4
% to Net sales	25.0%	23.8%
Operating margin	563.8	614.6
% to Net sales	12.7%	14.1%
Other - net	102.2	84.8
Restructuring charges and asset impairments	85.5	12.8
Income from operations	<u>376.1</u>	<u>517.0</u>
Interest - net	<u>82.9</u>	<u>87.7</u>
EARNINGS FROM CONTINUING OPERATIONS		
BEFORE INCOME TAXES	<u>293.2</u>	<u>429.3</u>
Income taxes	<u>72.5</u>	<u>106.8</u>
NET EARNINGS FROM CONTINUING OPERATIONS	<u>220.7</u>	<u>322.5</u>
Less: net earnings attributable to noncontrolling interest	<u>1.7</u>	<u>1.9</u>
Net earnings from continuing operations attributable to common shareowners	<u>219.0</u>	<u>320.6</u>
Earnings/(Loss) from discontinued operations before income taxes	132.8	16.5
Income taxes on discontinued operations	<u>44.9</u>	<u>5.2</u>
NET EARNINGS FROM DISCONTINUED OPERATIONS	<u>87.9</u>	<u>11.3</u>
NET EARNINGS	<u>\$ 306.9</u>	<u>\$ 331.9</u>
BASIC EARNINGS PER SHARE OF COMMON STOCK		
Continuing operations	\$ 2.78	\$ 3.90
Discontinued operations	1.11	0.14
Total basic earnings per share of common stock	<u>\$ 3.89</u>	<u>\$ 4.03</u>
DILUTED EARNINGS PER SHARE OF COMMON STOCK		
Continuing operations	\$ 2.74	\$ 3.82
Discontinued operations	1.10	0.13
Total diluted earnings per share of common stock	<u>\$ 3.84</u>	<u>\$ 3.95</u>
DIVIDENDS PER SHARE	<u>\$ 1.26</u>	<u>\$ 1.22</u>
AVERAGE SHARES OUTSTANDING (in thousands)		
Basic	<u>78,897</u>	<u>82,313</u>
Diluted	<u>79,874</u>	<u>84,046</u>

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

	December 2008	December 2007
<i>ASSETS</i>		
Cash and cash equivalents	\$ 211.6	\$ 240.4
Accounts and notes receivable	677.7	805.7
Inventories	514.7	556.4
Other current assets	94.0	197.3
<i>Total current assets</i>	1,498.0	1,799.8
Property, plant and equipment, net	579.8	564.9
Goodwill and other intangibles, net	2,596.1	2,198.0
Other assets	192.7	178.2
<i>Total assets</i>	\$ 4,866.6	\$ 4,740.9
 <i>LIABILITIES AND SHAREOWNERS' EQUITY</i>		
Short-term borrowings	\$ 227.7	\$ 292.8
Accounts payable	461.5	498.6
Accrued expenses	504.0	471.1
<i>Total current liabilities</i>	1,193.2	1,262.5
Long-term debt	1,383.8	1,164.9
Other long-term liabilities	564.8	541.3
The Stanley Works Shareowners' equity	1,706.3	1,754.0
Noncontrolling interests	18.5	18.2
Total Equity	1,724.8	1,772.2
<i>Total liabilities and equity</i>	\$ 4,866.6	\$ 4,740.9

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

	<u>YEAR TO DATE</u>	
	<u>Dec-08</u>	<u>Dec-07</u>
<i>OPERATING ACTIVITIES</i>		
Net earnings	\$306.9	\$ 331.9
Depreciation and amortization	183.0	162.2
Net (gain) loss from sale of businesses	(84.0)	-
Changes in working capital	122.7	51.7
Other	<u>(12.0)</u>	<u>(1.7)</u>
<i>Net cash provided by operating activities</i>	516.6	544.1
<i>INVESTING AND FINANCING ACTIVITIES</i>		
Capital and software expenditures	(140.8)	(86.9)
Net proceeds (taxes paid) from sales of businesses	204.6	-
Business acquisitions and asset disposals	(570.7)	(624.9)
Proceeds from long-term borrowings	249.7	529.9
Cash dividends on common stock	(99.0)	(99.8)
Other	<u>(189.2)</u>	<u>(198.6)</u>
<i>Net cash used in investing and financing activities</i>	(545.4)	(480.3)
<i>Increase (decrease) in Cash and Cash Equivalents</i>	(28.8)	63.8
<i>Cash and Cash Equivalents, Beginning of Period</i>	<u>240.4</u>	<u>176.6</u>
<i>Cash and Cash Equivalents, End of Period</i>	<u>\$211.6</u>	<u>\$ 240.4</u>
 <u>Free Cash Flow Computation</u>		
Operating Cash Flow	\$516.6	\$ 544.1
Less: capital and software expenditures	<u>(140.8)</u>	<u>(86.9)</u>
Free Cash Flow (before dividends)	<u>\$375.8</u>	<u>\$ 457.2</u>

Free cash flow is defined as cash flow from operations less capital and capitalized software expenditures. The Company believes this is an important measure of its liquidity, of its ability to fund future growth and to provide a return to the shareowners. Free cash flow does not reflect, among other things, deductions for mandatory debt service, other borrowing activity, discretionary dividends on the Company's common stock and acquisitions.

The change in working capital is comprised of accounts receivable, inventory and accounts payable.