

“ From crisis comes OPPORTUNITY. The chance to emerge BETTER than ever before. By remaining committed to our guiding PRINCIPLES. And TRANSFORMING a LEGACY established over a century ago. Today’s Stanley is lean, flexible, diverse, and focused on long term GROWTH. Today’s Stanley is READY for tomorrow.”

FINANCIAL HIGHLIGHTS

(millions of dollars, except per share amounts)

	2008	2007	CHANGE
Closing market price per share	\$ 35.47	\$ 48.39	(27%)
Total return (share price change plus dividends)	(24%)	(2)%	
Net sales from continuing operations	\$ 4,426	\$ 4,360	2%
Adjusted EBITDA from continuing operations*	\$ 622	\$ 673	(8)%
Percent of sales	14.1%	15.4%	(130 bps)
Net earnings from continuing operations	\$ 272	\$ 325	(16)%
Per share	\$ 2.82	\$ 3.87	(27)%
Per share excluding \$0.59 Q4 '08 restructuring**	\$ 3.41	\$ 3.87	(12)%
Net earnings	\$ 313	\$ 337	(7)%
Per share	\$ 3.92	\$ 4.00	(2)%
Return on capital employed			
from continuing operations	11.3%	14.1%	(280 bps)
Adjusted return on capital excluding Q4 '08 restructuring**	13.2%	14.1%	(90 bps)
Dividends per share	\$ 1.26	\$ 1.22	3%

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LONG-TERM FINANCIAL OBJECTIVES

SALES GROWTH

3-5% Annual Organic Growth

10% Annual Growth Including Acquisitions

FINANCIAL PERFORMANCE

Mid-teens Percentage Annual EPS Growth

Free Cash Flow Greater Than or Equal to Net Income

ROCE In 12-15% Range

DIVIDEND

Continued Growth

CREDIT RATINGS

"Upper Tier" Investment Grade

*A RECONCILIATION OF ADJUSTED EBITDA WITH THE RELATED GAAP MEASUREMENT, NET EARNINGS FROM CONTINUING OPERATIONS, IS PRESENTED ON PAGE 7.

**REFER TO FOOTNOTES ON PAGE 35 FOR ADDITIONAL INFORMATION.



MANAGEMENT LETTER TO SHAREOWNERS

THE STANLEY WORKS – STRENGTH AND FLEXIBILITY IN 2009 AND BEYOND

The state of today's operating environment was almost unthinkable only a few years ago. At that time, if someone had prognosticated any one of the following conditions, they likely would have been labeled as an extreme pessimist or at least an outlier:

- Storied financial institutions such as Lehman Brothers, Bear Stearns and Washington Mutual collapsing overnight
- Global credit markets essentially seizing up with virtually no access to funds for those issuers with ratings below upper tier investment grade. Central bankers around the world stepping up with trillions of dollars of liquidity and credit guarantees
- Major currencies gyrating with unimaginable volatility and the U.S. dollar continuing to strengthen in spite of our country's expanding balance sheet and growing fiscal deficit
- Asset values plummeting at alarming rates. The Dow plunging to levels not seen since 1997 while U.S. treasury bills are yielding almost zero
- One of the worst inflationary environments since the early 1970s yielding to a sweeping deflationary trend in a matter of weeks during the latter part of 2008
- Economic growth grinding to a halt and then slipping into deep negative territory with manufacturer's unit volumes typically down in double digits and no clear indication of a recovery
- The U.S. housing market slipping into depression-like conditions with housing starts dropping from a 36 year peak of 2.1 million as recently as 4 years ago to a current level of approximately 500 thousand annualized.

Yet this is the world of today. In our view, this is a world in which strong, reality-based companies that are well prepared will emerge as winners and reward their investors. This is a world that will place a premium on management teams that operate with agility, courage and common sense. Needless to say, in this world, the stakes are high – just as big winners will emerge from this tumult, losers will be left in the dust. Such dislocation is a logical and common phenomenon which occurs during recessionary periods; however, we think that the magnitude of today’s external issues will amplify this effect by placing severe stresses and strains on weaker enterprises.

At Stanley, we view this as a time of unparalleled opportunity. Our senior management team is seasoned, with our officers having been in key leadership positions with Stanley for an average of 11 years. This same team has been operating the company and repositioning it strategically for many years now. Together, we have made considerable progress and are dealing from a position of strength with respect to our financial condition, business portfolio, competitiveness and management system.

FINANCIAL STRENGTH AND STABILITY

Robust cash generation has been a key feature of the revitalized Stanley Works. Our ability to generate cash through recessions has been cycle-tested and, notably, the two years associated with this latest downturn ('07/'08) has been the strongest two year free cash flow (“FCF”) period in our history. Further, during the ten year period ended December 2008 our company generated \$2.9 billion of FCF, or almost 3x that of the \$1.0 billion realized

during the ten preceding years. This dramatic increase was the result of a concerted and sustained effort to extract cash from the enterprise and reinvest it in areas producing high cash returns. Our success in managing working capital exemplifies this approach. At year-end 1999, working capital was \$702 million. Nine years later we closed out the year with working capital of \$731 million, essentially unchanged during a period when the company grew its revenues by over 60%. This passion for sustained cash flow and asset efficiency has enabled us to reinvest over \$2.8 billion in acquisitions since the beginning of 2002 while returning \$1.2 billion to shareholders through cash dividends and share repurchases during the same period.

Another important element of Stanley’s financial strength is our long-standing commitment to an upper tier investment grade credit rating. During the credit boom, we refused to heed the clarion call to increase leverage and compromise credit quality. This disciplined, conservative financial posture has served us well as we have enjoyed free and clear access to short and long term credit markets at favorable rates. During the entire credit crisis, our access to commercial paper markets has been uninterrupted. Further, we were the first industrial company to open the public issue term debt markets after the multi-week freeze in the wake of the Lehman bankruptcy. We had been planning to term out some short term paper at the time and, on September 24, 2008 we were able to successfully open the market and issue \$250 million of 5-year notes, a testament to the underlying strength of our credit.

Liquidity is an additional critical aspect of our financial strength. In February 2008 we took the precautionary measure of increasing the size of our liquidity facility from \$550 million to \$800 million and extended it to 2013. Just last month, we renegotiated the same facility to relax covenant restrictions in order to ensure full access to funds even under what we consider to be draconian economic stress scenarios. With \$600 million of unutilized commercial paper capacity, \$800 million of undrawn bank lines, more than \$200 million of cash on hand and the \$320 million inflow expected in May 2010 from our maturing stock purchase agreement, we have approximately \$2 billion in excess near term liquidity. With only \$200 million of long term debt maturing between now and year-end 2011, we are very well positioned. In fact, current sources of liquidity are equal to 2x all maturing long term obligations through 2012.

Taken as a whole, this financial strength and stability affords us the flexibility to avail ourselves of opportunities that may come our way as the industries in which we operate consolidate and weaker or less committed competitors inevitably retrench.

PORTFOLIO POSITIONING AND COMPETITIVENESS

Although we never predicted the severity or protracted nature of the economic and housing market issues, we have been preparing for a cyclical downturn in residential construction for quite some time. Our purchase of Best Access Systems in November 2002, and subsequent sale of our residential entry door and home décor businesses in 2004 marked the beginnings of a methodical progression toward

a higher growth, more diversified revenue base with less dependence on Construction/DIY (CDIY).

Since 2002, we have built our security business from \$300 million in revenue to a \$1.5 billion recession-resistant, highly profitable segment, representing 43% of Stanley's 2008 total segment profit.

We continued to diversify our business portfolio in 2008, acquiring 13 companies during the year, including two key security related acquisitions – Sonitrol and Général de Protection, with combined annual revenues of approximately \$200 million. Today, over a quarter of our security revenue is contractually repetitive, also known as recurring monthly revenue (RMR). This, in tandem with our large installed base, adds stability. In addition, since virtually all of our security revenues are non-residential, we are less tied to the vagaries of consumer spending cycles. We have identified a number of effective ways to grow this business organically as well as through acquisitions. A continued focus on outstanding customer service together with product and service innovations give us confidence that we will continue to gain share within the large and attractive global security market.

Our industrial activities have expanded as well, and with the emergence of our global Industrial and Automotive Repair growth platform, the industrial segment today represents 29% of our revenues.

From 2002 to 2008, the CDIY business while growing organically, has decreased in relative

size from 59% to 37% of total revenues. As the preeminent global manufacturer of hand tools with the leading brand, highly innovative products and ubiquitous global distribution, we are well positioned to gain share at a time when weaker franchises are under duress. CDIY, while a smaller portion of our overall company today, remains a vital part of our future and should enjoy a resumption of rapid revenue and profit growth when its end markets finally stabilize.

A very positive outcome of this overall portfolio transformation has been to reduce our concentration with large U.S. retailers. Today, our largest customer represents only 6% of our revenue versus 22% in 2002. U.S. home centers and mass merchants, which accounted for 40% of our revenues in 2002, comprise only 13% of total revenue today. Another important benefit of the portfolio shift has been the geographic diversification of the company. Whereas in 2002 less than 30% of our revenues were generated from outside the U.S., today nearly 45% of our business is of that nature. We remain underweight in Asia (only 5% of total revenues), but we are investing in that region and expect Asia to be a growth engine for Stanley in the coming years.

THE STANLEY FULFILLMENT SYSTEM (SFS)

SFS is our proprietary management system and our entire organization lives it every day. SFS is a body of processes, systems and structure which creates customer value and accelerates operating performance improvements. The foundation of SFS centers on Transformational Lean™, common platforms,

sales & operations planning (S&OP) and complexity reduction initiatives, producing benefits including shorter lead times, lower costs and inventories, service level improvements and employee safety benefits. We are utilizing lean, value stream mapping and other continuous improvement techniques to streamline operations and drive improvements throughout our supply chain. Our SFS initiative helped to mitigate the substantial impact of material and energy price inflation experienced in recent years and has been instrumental in the improvement in working capital turns from 4.5x in 2006 to 5.9x in 2008.



Don McIlnay
*President Industrial Tools and Emerging
 Markets retired December 31, 2008*

In his operating and sales management roles, Don McIlnay provided outstanding leadership to his teams at Stanley during his tenure which spanned almost a decade. His passion for the customer, boundless vision and dedication to the company has left a favorable and lasting impression on his colleagues at Stanley. We wish him the very best in his retirement.

In 2009 and beyond, we plan to further leverage SFS to better serve our customers, enhance our cash flow and margins, as well as provide scalability to support our growth strategies.

A FUTURE OF GROWTH

Our long term growth strategy remains intact. We intend to continue to shift the portfolio away from CDIY and toward our growth platforms in electronic security, mechanical security and industrial and automotive tools, as well as intensify our growth initiatives in infrastructure, engineered healthcare storage and emerging markets.



Donald Allan, Jr.
*VP and Controller, named VP and Chief
Financial Officer effective January 1, 2009*

We welcome Don Allan as CFO. He has performed exceptionally well in key financial leadership positions at Stanley, including VP and Controller and Assistant Controller, since he joined in 1999. Don brings outstanding leadership capabilities along with a strong business acumen, extensive financial expertise and a wealth of experience to the position. Don has played and will continue to play an important role in ensuring the long term financial strength of the company.

However, priority one for 2009 is to protect our earnings base, cash flow and financial position and thus enable us to continue to deal from a position of strength. As the global economy is now in uncharted territory, we will continuously develop realistic perspectives on our end markets and stand ready to reduce our debt levels and cost structures accordingly without compromising future growth prospects. We have done that proactively in 2008 and in early 2009, and we will continue to do so as long as necessary. In the short term, our acquisition activity will be minimal unless an opportunity arises of sufficient strategic and financial attractiveness as to justify the partial use of equity in financing the transaction. That said, we anticipate that the next several years will be ripe with growth opportunities as our various industries undergo the unavoidable consolidation that will take place. We intend to participate in that consolidation and fully expect the Stanley of tomorrow to be an even bigger, stronger and more diverse company.

We also continue to be selective relative to the types of businesses we choose to operate – businesses where (1) brand matters, (2) there is a clearly defined customer value proposition which can be enhanced through continued innovation and (3) global cost leadership is achievable – these attributes have and will continue to allow us to generate above-average returns. We will be dispassionate in applying these criteria to our portfolio decisions and are committed to exit those activities which do not measure up or do not exhibit the requisite characteristics for long term growth and profitability.

SUMMARY

We are a reality-based company, with a talented team of associates who have worked hard to position us for success and are ready and able to face the challenges ahead by operating with agility, courage and common sense. Now is a defining moment in our long and proud history; we have been in business for 166 years and have managed to thrive during the best of times and the worst of times.

As always, we remain focused on total shareholder return. 2008 marked the 132nd consecutive year we paid a dividend, a record that remains unmatched by any other industrial company on the New York Stock Exchange.

The balance of this report focuses on certain key elements of our strategy – examples of the successful execution of our diversification actions, new growth opportunities and tangible benefits resulting from our various SFS initiatives – as well as highlights of the company's global environmental sustainability efforts. As you read on, we are sure you will note that Stanley's products aren't just to be found in your toolbox anymore.



John F. Lundgren
Chairman & CEO



James M. Loree
EVP and Chief Operating Officer

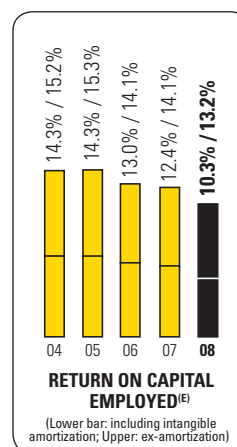
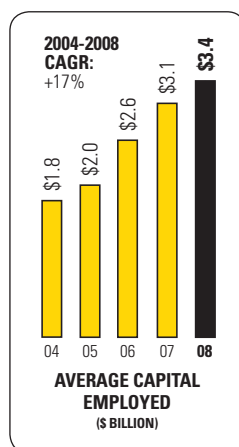
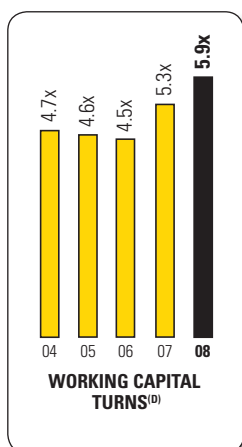
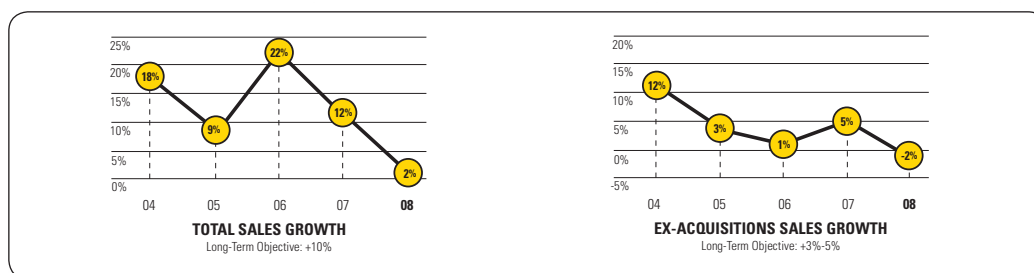
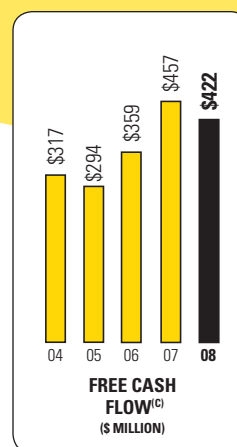
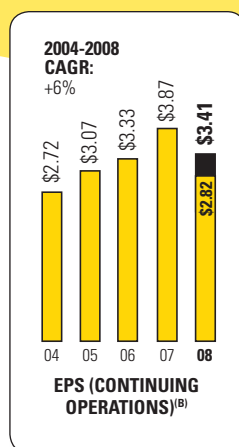
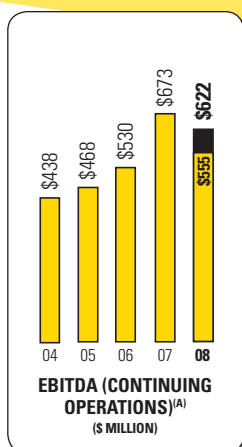
New Britain, CT
March, 2009



John F. Lundgren
Chairman & CEO

James M. Loree
EVP and Chief Operating Officer

2008 SCORECARD



^(A) EBITDA – CONTINUING OPERATIONS (EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION): IS A NON-GAAP MEASUREMENT. MANAGEMENT BELIEVES IT IS IMPORTANT FOR THE ABILITY TO DETERMINE THE EARNINGS POWER OF THE COMPANY AND TO PROPERLY VALUE THE COMPANY, DUE TO CURRENT HIGH LEVELS OF NON-CASH EXPENSES RELATED TO RECENT ACQUISITIONS. ADJUSTED EBITDA IN 2008 EXCLUDES \$67 MILLION OF PRE-TAX RESTRUCTURING AND RELATED CHARGES DUE TO THE UNUSUALLY LARGE MAGNITUDE OF SUCH CHARGES. A RECONCILIATION OF EBITDA TO THE RELATED GAAP MEASUREMENT, NET EARNINGS FROM CONTINUING OPERATIONS, FOLLOWS:

	2004	2005	2006	2007	2008
Net earnings from continuing operations	\$ 229	\$ 262	\$ 279	\$ 325	\$ 225
Interest income	(4)	(7)	(4)	(5)	(9)
Interest expense	39	40	69	85	82
Income taxes	83	80	69	109	76
Depreciation and amortization	91	93	117	159	181
EBITDA from continuing operations	\$ 438	\$ 468	\$ 530	\$ 673	\$ 555
Q4 '08 Restructuring and related charges					67
Adjusted EBITDA	\$ 438	\$ 468	\$ 530	\$ 673	\$ 622

(B), (C), (D), (E) REFER TO PAGE 35.

Moving Forward – 2008 and Beyond

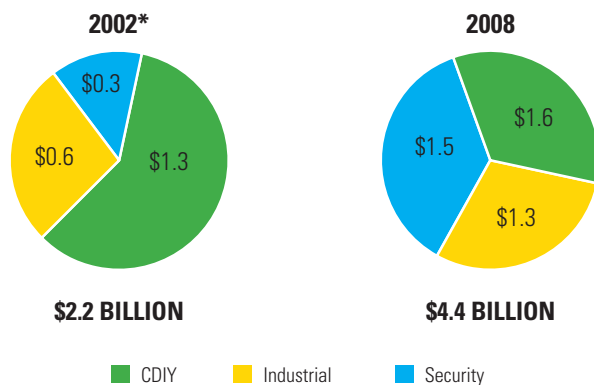
In no uncertain terms, 2008 was a difficult year for businesses around the world. The global economic downturn presented businesses with the challenge of reassessing and in some cases reforming almost every aspect of how they do business in order to remain viable. For Stanley, this meant remaining committed to diversifying our product portfolio, branching into new markets and focusing on our core strengths. Through these actions, we are placing ourselves in a position to reduce the effects of the depressed global economy and to be prepared to emerge as a stronger, more competitive company.

Our 2008 and beyond story is depicted by the following sections:

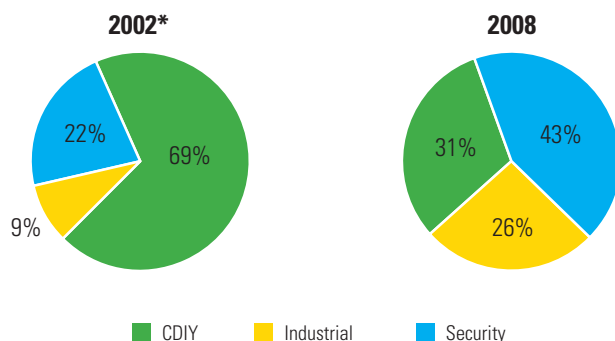
- Growth and Diversification (Stanley Security Solutions, Healthcare Solutions, Emerging Markets)
- The Stanley Fulfillment System
- The Stanley Brand
- Sustainability

STANLEY'S PORTFOLIO DIVERSIFICATION

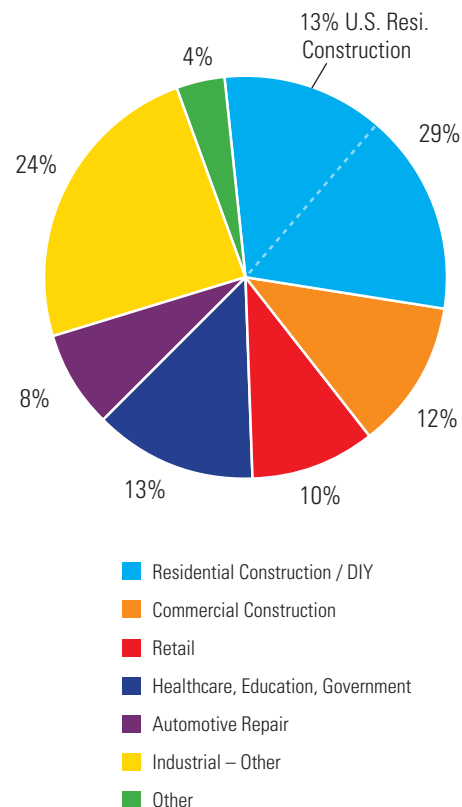
Segment Revenues



Segment Profit



STANLEY'S GLOBAL END MARKETS**



* 2002 marked the beginning of the company's diversification strategy

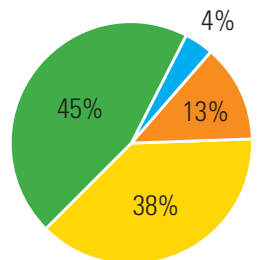
** Based on 2008 consolidated revenues

Stanley Security Solutions

In today's world, the demand for reliable security products and solutions has never been higher. Stanley Security Solutions (SSS), with 2008 sales of \$1.5 billion, a 7% increase over 2007, continues to evolve and grow through its Convergent (Electronic) Security Solutions (CSS) and Mechanical Access Solutions (MAS) businesses. An integral part of our security business growth is our successful acquisition strategy, whereby we use proven integration techniques in order to leverage synergies from acquired companies to meet market needs.

ELECTRONIC SECURITY

2008 Revenue Mix



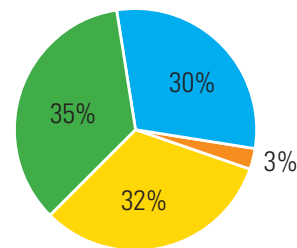
- Recurring*
- Time and Materials
- Product
- Installation

Convergent (Electronic) Security Solutions (CSS)

CSS designs, installs and services electronic security solutions. It provides real-time security services, including video and audio monitoring, access control, fire & life safety, time and attendance, staff protection and a host of eServices. We integrate these services to create customized security solutions for our customers.

MECHANICAL ACCESS

2008 Revenue Mix



- Builders Hardware
- Commercial Locking Systems
- Other Mechanical
- Automatic Doors

Mechanical Access Solutions (MAS)

MAS is our family of mechanical security solutions. Our product portfolio ranges from automatic doors and commercial locksets to hardware solutions, and is ideally suited for use in schools, banks, retail stores, hospitals, government agencies, manufacturing facilities, colleges and universities, and utility companies.

*Recurring represents revenues from multi-year service contracts relating to monitoring, maintenance, tests and inspections, eServices, and preventative maintenance.

eSERVICES

Stanley's eServices are a clear competitive advantage for us, as our approach to world-class customer service includes providing customers with real-time, online information to help them operate their businesses more securely and efficiently. Our full portfolio of eManagement services ranges from helping our customers with everything from viewing their installation schedules, service

repair status, alarm incidents, fire inspection history and facility access activity, to managing our customers' access control systems or video monitoring services, including video alarm verification and video guard tour. Stanley eServices gives our customers secure online, real-time information that adds value and makes their organizations safer and more secure.



Our eServices are linked with an online network providing real-time security information to our customers.

LOCAL CUSTOMER TEAMS

We use Local Customer Teams (LCTs) to bring together members from each Security Solutions operation, creating synergistic relationships to promote cross-selling opportunities to our installed base and new prospects. Since their inception in 2005, LCTs have

generated significant growth by leveraging existing relationships and coordinating sales activities. Through these efforts we ensure that each potential customer and project is afforded full access to the breadth and depth of our security service and product offerings.

TOTAL SECURITY PACKAGE

We are one of the leading commercial security companies in North America. Our combined security portfolio of products and services provides a one-company relationship when it comes to fulfilling our customers’ mechanical and electronic security needs.

MEDICAL FACILITY



EXPANSION OF GLOBAL FOOTPRINT

Our security business isn't just increasing its capabilities, it's also increasing its global footprint. Through key acquisitions within the past year, we've successfully expanded our solutions and capabilities in new global markets, enabling us to better serve

large national and global accounts. This expansion will allow us to leverage technologies, giving us a more well-rounded portfolio of services and product offerings, as well as a multitude of new business opportunities in markets throughout the world.

GÉNÉRALE DE PROTECTION

Acquired in October 2008, Générale de Protection (GdP) is one of the leading providers of electronic security and monitoring systems and services within France and Belgium. With annual revenues of approximately \$90 million, GdP adds audio and video capability to our electronic service platform, and will serve as a foothold to

create a Pan-European systems integration and monitoring business. Accordingly, systems and processes are being established at GdP to allow for a smooth and efficient integration of future European acquisitions.



Générale de Protection Geographic Coverage



SONITROL

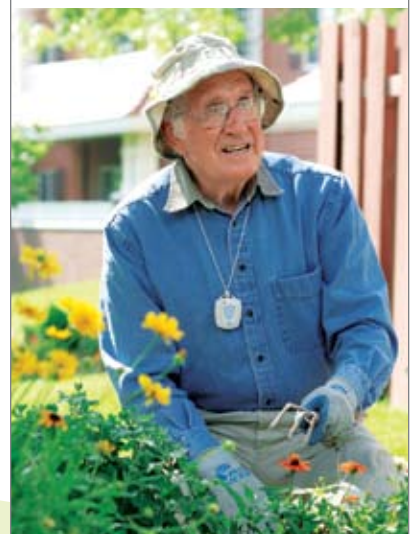
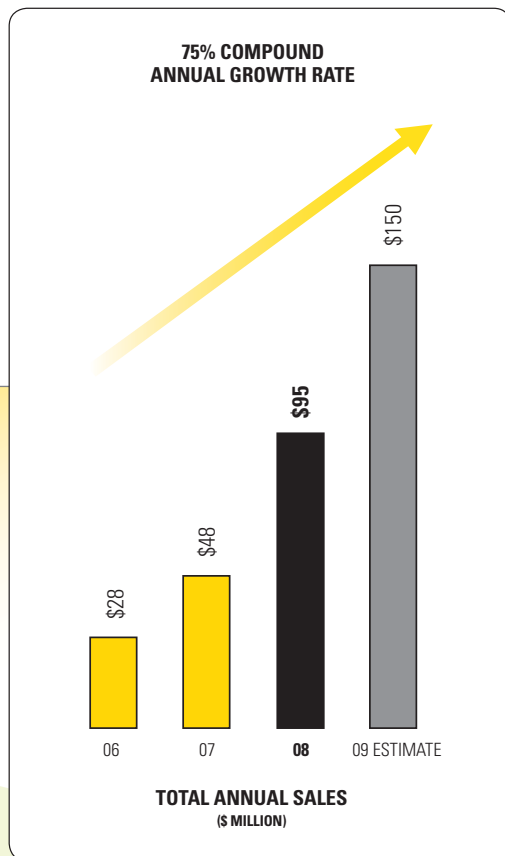
Also acquired in 2008, Sonitrol is a leading provider of integrated, state-of-the-art intrusion, video, access and fire, and monitoring security solutions. With annual revenues of approximately \$110 million in North America, Sonitrol enhances our electronic security portfolio by integrating industry leading verified audio detection

technology into our existing offerings. The addition of audio detection technology allows us to enhance our position as a one stop shop for security needs of schools, commercial buildings, government offices and healthcare facilities.

Healthcare Solutions

Since 2002, Stanley has seen its share of the healthcare market rise substantially. Stanley recently formed the Healthcare Solutions division in recognition of the rapidly expanding healthcare market. Building upon its existing healthcare related operations, and 2007 and 2008 acquisitions including InnerSpace and Scan Modul, Stanley is well positioned to benefit from growth in this important market segment.

HEALTHCARE SOLUTIONS REVENUES





Pedz, Hugs, WanderGuard and RoamAlert help protect everyone from infants to the elderly.

Hugs®
Infant Protection

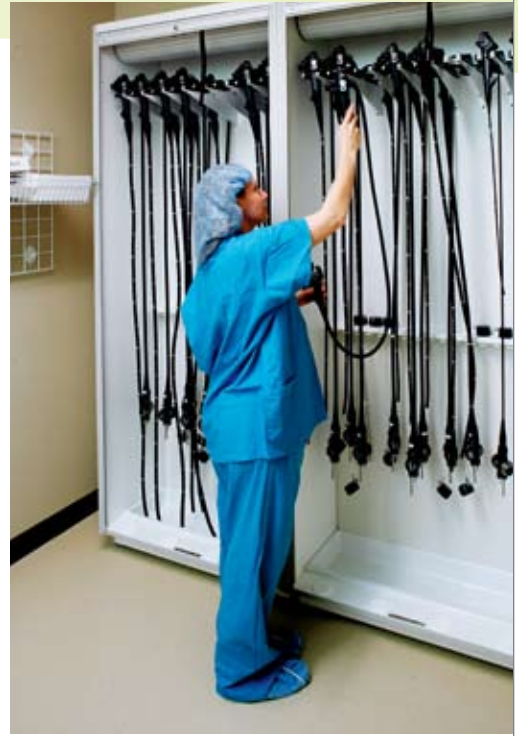
Pedz™
Pediatric Protection

WanderGuard®
DEPARTURE ALERT SYSTEM

HEALTHCARE SAFETY & SECURITY

Stanley's healthcare related businesses are leaders in providing safety and security systems that aid in infant protection, wireless communication, wander prevention, departure alert and fall management applications, with a total installation base of 15,000 hospitals and senior care facilities worldwide. Our Hugs system, protecting newborns from abduction and mismatching, and

WanderGuard and RoamAlert systems, protecting Alzheimer's patients and the elderly, are market leaders and continue to be the fastest growing Radio Frequency Identification (RFID) protection systems in the marketplace. And with new products, overseas expansion and a growing demand for senior care, the future of this business looks bright.



InnerSpace medical storage solutions configured to meet the diverse needs of a hospital.

INNERSPACE STORAGE SYSTEMS

Stanley InnerSpace Storage Solutions help healthcare professionals address the concerns of space, cost containment, employee efficiency and inventory management. Our storage solutions are tailored to meet the demands of the many diverse clinical departments throughout hospitals. In the world of inventory management, SpaceTRAX plus RFID is revolutionizing the way hospitals track,

control and protect clinical supplies. SpaceTRAX plus RFID uses barcode technology that is coupled with web-based inventory management software to provide real-time inventory information, which helps reduce the financial burden of clinical supply management and overhead costs.



Scan Modul solutions in use throughout European hospitals.

SCAN MODUL

We demonstrated our commitment to build a global healthcare solutions platform with the 2008 acquisition of Scan Modul. A European counterpart to InnerSpace, Scan Modul is a market leader in integrated logistics solutions for hospitals throughout Europe. This synergistic relationship will allow us to leverage technologies and develop and deliver the highest value added solutions. With

established distribution in over 20 countries throughout Western Europe, Asia and Australia, Scan Modul will bring our engineered storage business into new markets and, combined with InnerSpace, will make us a worldwide leader in providing specialty medical storage solutions.

Emerging Markets

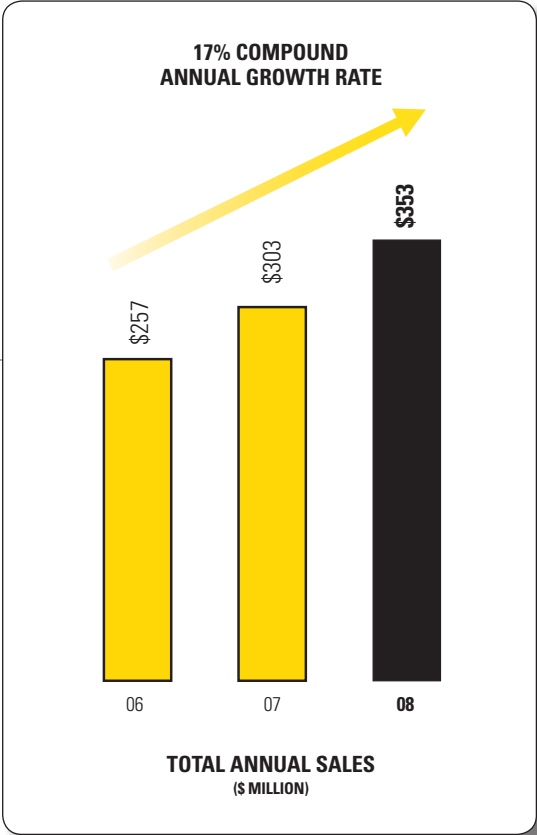
Stanley’s emerging markets revenues exceeded \$350 million in 2008, a 17% increase over the prior year. Continued expansion into emerging markets primarily through the company’s Industrial & Automotive Tools businesses, such as Facom and Proto, remains one of the company’s key growth initiatives. The following are examples of our product offerings in selected high growth regions of the world.

STANLEY’S EMERGING MARKETS REVENUES

EMERGING MARKETS:

Stanley’s commitment to growth within emerging markets has taken us to the following countries and regions of the world:

- China
- Eastern Europe
- Taiwan
- Middle East
- Southeast Asia
- Africa
- India
- Latin America





Stanley Hydraulic Tools at work during recovery efforts after massive May 2008 China earthquake.

CHINA

Stanley's sales in China have doubled in the last three years, driven by growth in our industrial and hydraulic tools, and a small but rapidly growing automatic doors business. A prime example of one of Stanley's important growth platforms in China is based upon meeting increasing demand for infrastructure related tools. Stanley's Hydraulic Tools opened a plant in China in 2008 and

developed a distribution network to meet these needs. As an up and coming technology for China, hydraulics is poised to continue growing for years to come. Our ability to tap into this market ahead of the curve leaves us uniquely positioned to be the hydraulic tool provider of choice throughout China.



Russian aircraft mechanic using Facom tools to get the job done.

EASTERN EUROPE & MIDDLE EAST

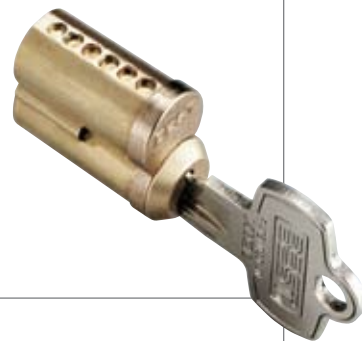
Throughout Eastern Europe and the Middle East, Stanley continues to see strong performance and expansion opportunities. Facom's industrial hand tools achieved double-digit growth, enhancing its place as one of the market leaders within these regions. 2008 was also the year Stanley opened its first office in Dubai, signaling a new era for Stanley in the Middle East. Our operations within these regions are well positioned for future growth.



Facom tools in use at a Russian food-canning factory.



Stanley Mechanical Access Solutions' patented interchangeable cylinders and cores have served the Dubai International Airport for over a decade.



AL MAKTOUM INTERNATIONAL AIRPORT

In 2008, Stanley won a contract to outfit the first four buildings of the new Al Maktoum International Airport in Dubai, slated to become the world's largest cargo and passenger airport, with MAS security solutions such as hinges, locks, levers, exit devices, closers and Stanley Best patented and interchangeable cylinders and cores.





Proto tools have been a part of the Panama Canal expansion project.

LATIN AMERICA

From the world's largest copper mine in Chile, to the oil fields of Venezuela, to the expansion of the Panama Canal and to the ship repair yards in Argentina, one name continues to appear: Stanley Proto. Proto's strong performance in Latin America, combined with our mechanics tools platform and our specialty automotive tools, make it easy to see why we have increased sales in Latin America by almost 170% in the past five years.





A mechanic in Jakarta, Indonesia uses Facom tools for cockpit maintenance.

SOUTHEAST ASIA

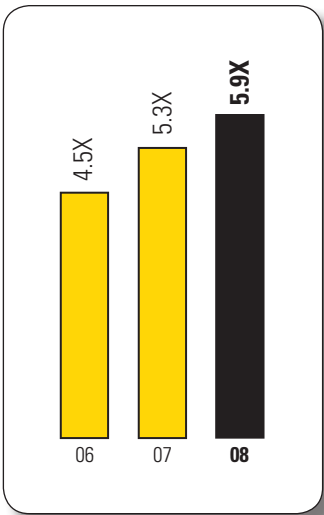
Southeast Asia proved to be a fertile market for Stanley, demonstrated by over 20% growth within the region in 2008. Proto and Facom remain fixtures within Southeast Asia's industrial tools market, evidenced by their use in oil rigs, power plants and manufacturing

facilities. Diversifying into the growing healthcare industry by leveraging the company's InnerSpace business and other health-care related product offerings is also a strategic focus within this region.

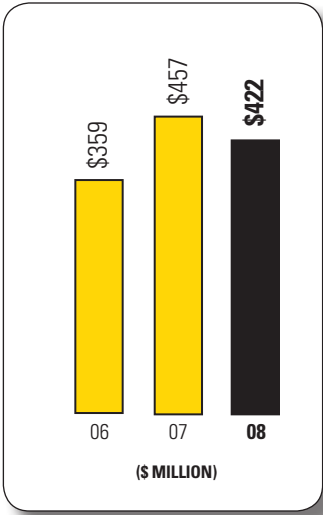
Stanley Fulfillment System

The Stanley Fulfillment System (SFS). It's our transformational operating philosophy – the way we do business. SFS starts and ends with the customer. With SFS we deliver superior service and value. It thrives in the Stanley culture where all 18,000 employees are linked to SFS performance objectives. It also means reducing cost, leveraging new technologies, generating more cash by improving working capital performance and achieving maximum efficiency. SFS employs Centers of Excellence to keep us ahead of the curve. A goal deployment process that allows us to hit targets and continue growing. And a showcase plant initiative to keep all plants on the track towards achieving our SFS related goals. In short, SFS means Stanley is delivering like never before.

WORKING CAPITAL TURNS*



FREE CASH FLOW*



*REFER TO PAGE 35 FOR FURTHER INFORMATION.

Complexity Management

Complexity Management uses techniques to examine existing processes to identify and eliminate unnecessary activities to reduce cost and increase productivity. Complexity is tolerated only when it creates customer value.

Sales & Operations Planning (S&OP)

S&OP is a critical business process that keeps demand and supply in balance. S&OP involves tight controls across the supply chain through synchronization and rapid response to demand variations.



Transformational Lean™

Transformational Lean™ is Stanley's proprietary methodology used to minimize inventory and overhead by streamlining our supply chain, manufacturing and back-office processes. It is thoroughly integrated with the other aspects of SFS including Complexity Management, S&OP and Common Platforms.

Common Platforms

SFS involves the development of standardized business processes and system platforms to reduce costs and provide scalability to facilitate organic growth and the integration of acquired companies.

SFS in Action



Our tape rule plant in New Britain, Connecticut, uses SFS principles to reform and streamline its manufacturing performance.

SHOWCASE PLANT INITIATIVE

Stanley's showcase plant initiative was started as a way to get all of our plants working towards full implementation of SFS. Each year, plants are scored on criteria across seven areas relating to SFS, including customer satisfaction, quality, complexity management,

lean and supplier collaboration. Senior management visits the top ranked sites for an in-depth final evaluation. This year's top scoring plants were Wroclaw, Poland, New Britain, Connecticut and Farmington, Connecticut.

The following section features three plants that highlight SFS in action through the use of S&OP, Complexity Management, and Transformational Lean™.



A factory worker manages tape measure supply in our Thailand plant.

SFS – S&OP AT WORK (THAILAND)

Through SFS our Thailand plant is working to increase throughput while reducing inventory. This is accomplished by reducing complexity, variation and waste in our processes. By using a fully integrated, demand-driven supply model we've improved plant speed, shipment

frequencies and inventory overhead management. This resulted in a 25% reduction in raw materials, work in process inventory and manufacturing lead times, with a 98% fill rate.





A Vidmar factory worker creating a custom solution born from a standard template.

SFS – COMPLEXITY MANAGEMENT AT WORK (ALLENTOWN, PA)

When one footprint can yield over 290 quintillion different possibilities, it's important to keep the process as simple as possible. Through complexity management, we've implemented the manufacturing process of "Postponement." Postponement allows customers to configure their order from a standard template, which allows us

to build from that standard template every time. This gives us the ability to rapidly service diverse markets, and reduce inventory and overhead. The result? 100% fill rates through 20 consecutive quarters of growth. A doubling of our working capital turns. And a 25% reduction in lead times.



Welders in an access technologies plant are given 360° of access to doorframes using the innovative Door Panel Welding Fixture.

SFS – TRANSFORMATIONAL LEAN™ AT WORK (FARMINGTON, CT)

Producing thousands of automatic door solutions a year isn't the challenge. The challenge is producing them as efficiently as possible when no two are alike. At our Farmington, Connecticut plant, Transformational Lean™ has helped us redefine the business model and win market share. From 80% manual manufacturing to 80%

automation, we've reduced cycle times by 50% and increased weekly production by over 185% without any added labor cost. What's more, our new process technology allows us to respond quickly to customer changes reducing overtime and lead times by 30%.

The Stanley Brand

The continued transformation of Stanley would not be complete without a reinvigoration of one of our most valuable assets – our brand. Encompassing a family of world-class businesses such as HSM, Sonitrol, Facom, Mac Tools and Proto, the Stanley name is synonymous with durability, reliability and quality. To continue this relationship with the world, Stanley has developed a focused and targeted brand building strategy comprised of initiatives such as multimedia ad campaigns, increased presence in markets throughout North America, Europe and Asia, and a sponsorship deal with NASCAR. The result of this strategy has been a 40% increase in brand awareness since 2003.



Elliott Sadler, driver of the No. 19 Stanley Dodge.



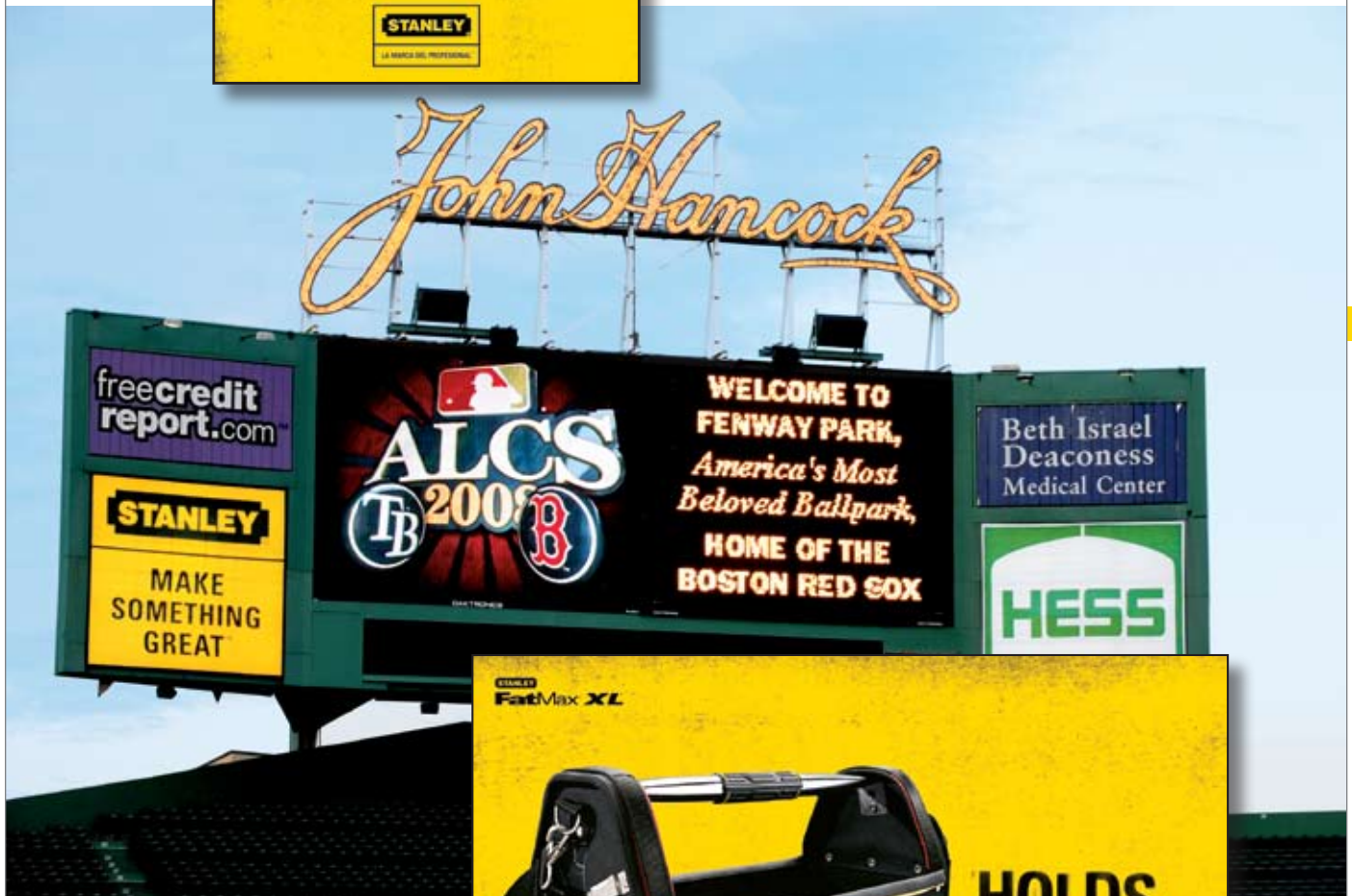
**¿QUIÉN DIJO
QUE NO SE PUEDE
TENER 3
ESTRELLAS
EN UN SOLO EQUIPO?**



DE SERVIDOR DE LUMENES ADJUSTABLES - CARGA INTERNA RECARGABLE EN CARGADOR DE LUCE INALÁMBRICO - ENCENDEDOR AUTOMÁTICO
MULTI-CONECTIVIDADES - LARGA VIDA DE LA BATERÍA - CARGA RÁPIDA - BATERÍA RECARGABLE DE ALTA POTENCIA - BATERÍA
DE ALTA CAPACIDAD - ENCENDEDOR AUTOMÁTICO - ENCENDEDOR DE ENCENDEDOR - ENCENDEDOR DE ENCENDEDOR - ENCENDEDOR DE ENCENDEDOR



STANLEY
LA MARCA DEL PROFESIONAL



STANLEY
FatMax XL

**HOLDS
LOADS.
SPEAKS
VOLUMES.**

Now whether you're up to the job, you can't even see. Load the way you see.
The Stanley Portfolio 10 Super Duty Series, among other hard hat features, is a truly professional tool.
Construction made from quality grade fabric. So it can handle any tool, any job, anywhere. And you
can't even see it. Because, as with all Stanley gear, it's made from professional hardware.
For loads more, visit www.stanley.com

Sustainability

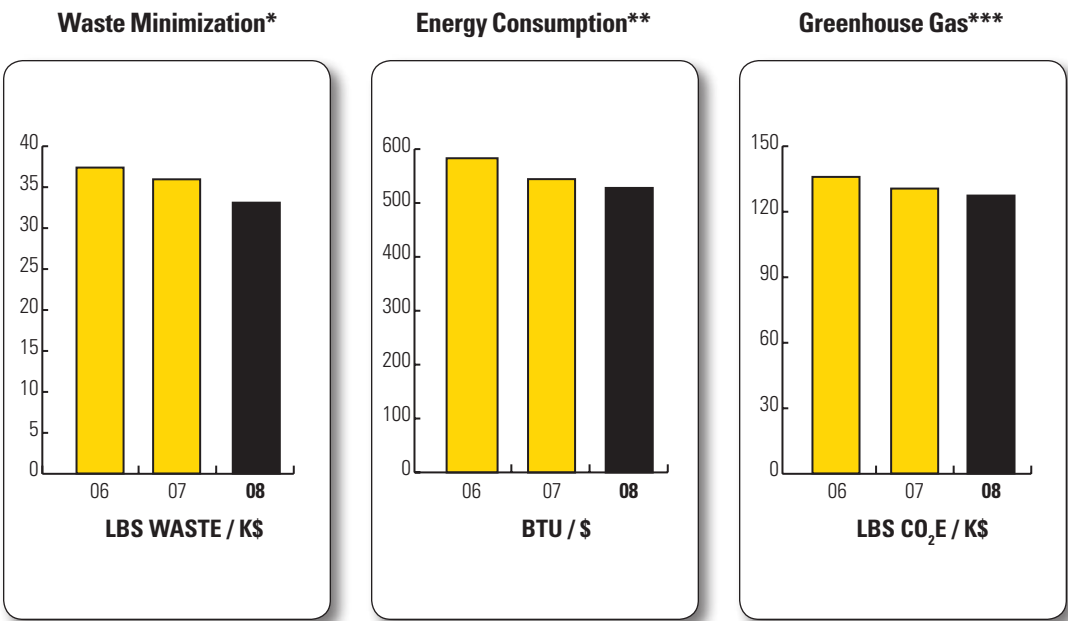
“To be recognized by our stakeholders as a sustainable company that publicly demonstrates the responsible management of environmental, social, and economic resources.”

-Vision Statement, the Stanley Sustainability Council

Stanley’s longstanding commitment to environmental, health and safety compliance provides a strong foundation for sustainability. Sustainability means meeting present needs without compromising the ability of future generations to meet their needs. Stanley demonstrated its top down commitment by forming a Sustainability Council to implement, track, communicate and institutionalize initiatives that drive environmental, social, and economic success. The Council actively benchmarks with recognized leaders in corporate sustainability to share best management practices and accelerate our progress.

KEY PERFORMANCE INDICATORS

In order to minimize our footprint, we measure Key Performance Indicators (KPIs) across our manufacturing, distribution and field service organizations. The following three graphs show continuous improvement across three key environmental indicators used to track performance at our manufacturing and distribution sites.



*WASTE MINIMIZATION IS THE TOTAL WEIGHT OF ALL SOLID WASTE STREAMS GENERATED NORMALIZED TO PRODUCTION (POUNDS PER 1,000 PRODUCTION \$)
**ENERGY CONSUMPTION IS THE SUM OF ELECTRICITY AND FUEL USE NORMALIZED TO PRODUCTION (BRITISH THERMAL UNIT PER PRODUCTION \$)
*** GREENHOUSE GAS EMISSIONS ARE THE SUM OF DIRECT AND INDIRECT AIR EMISSIONS RESULTING FROM THE CONSUMPTION OF FUEL ON SITE AND THE GENERATION OF ELECTRICITY OFFSITE, CONVERTED TO CO2E, NORMALIZED TO PRODUCTION (POUNDS CO2E PER 1,000 PRODUCTION \$)



Stanley's Farmington River Power Plant lies on the scenic Farmington River, which runs through central Connecticut



THE FARMINGTON RIVER POWER PLANT

The Farmington River Power Plant owned by The Stanley Works, is a small hydroelectric power station that contributes power to a common grid supporting homes, schools and businesses throughout the state of Connecticut. The 30 million kilowatt hours produced here per year is equivalent to 750,000 gallons of fuel oil.

CARBON DISCLOSURE PROJECT

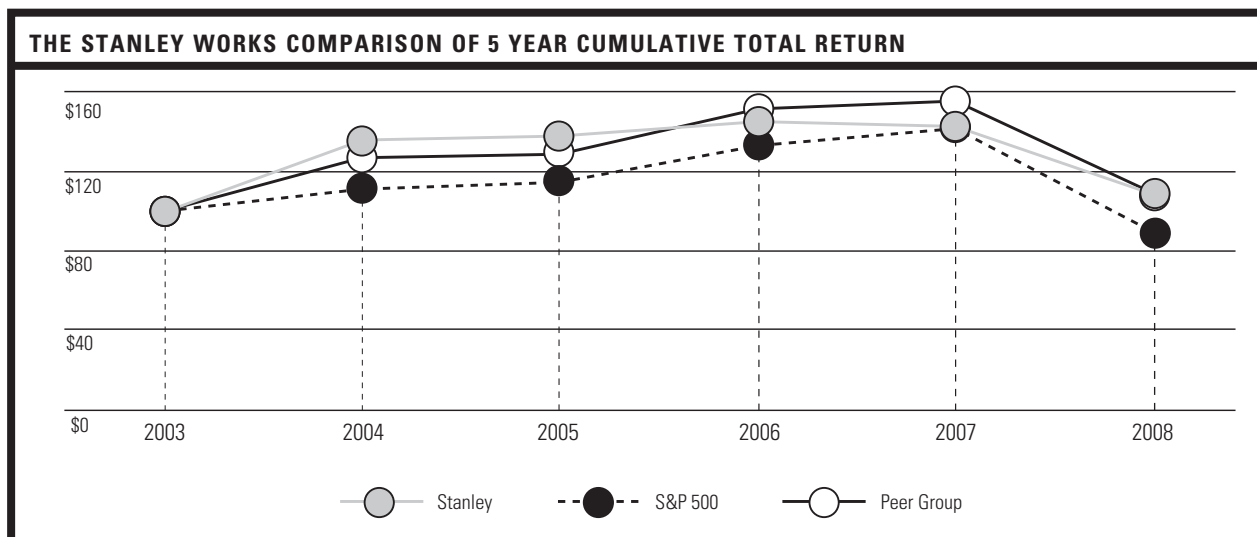
The Carbon Disclosure Project (CDP) is an independent not-for-profit organization that acts as an intermediary between shareholders and corporations on climate change related issues. In our first year of participation, we finished with a score of 83 out of 100, 232% ahead of the average of our top five participating competitors.

CERTIFICATIONS

Our certifications are our pedigree. To date, we have achieved some of the most highly respected certifications in the industry, including the international environmental management system standard ISO 14001. We've also been recognized by federal regulators in the U.S. (EPA Performance Track), Mexico (Mexico Industria Limpia), and Israel (Israel Guardian of the Environment).

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN AMONG THE STANLEY WORKS, S&P 500 STOCK INDEX AND PEER GROUP

Set forth below is a line graph comparing the yearly percentage change in the Company's cumulative total shareholder return for the last five years to that of the Standard & Poor's 500 Stock Index (an index made up of 500 companies including The Stanley Works) and the Peer Group. The Peer Group is a group of nine companies that serve the same markets the Company serves and many of which compete with one or more of the Company's product lines. Total return assumes reinvestment of dividends.



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The points in the above table are as follows:

	2003	2004	2005	2006	2007	2008
Stanley	\$ 100.00	\$ 135.48	\$ 136.20	\$ 146.05	\$ 143.73	\$ 108.55
S&P 500	\$ 100.00	\$ 110.88	\$ 116.33	\$ 134.70	\$ 142.09	\$ 89.52
Peer Group	\$ 100.00	\$ 128.86	\$ 129.49	\$ 150.84	\$ 156.11	\$ 105.44

Assumes \$100 invested on January 3, 2004 in the Company's common stock, S&P 500 Index, and the Peer Group. The Peer Group consists of the following 9 companies: The Black & Decker Corporation, Cooper Industries, Inc., Danaher Corporation, Illinois Tool Works, Inc., Ingersoll-Rand Company, Masco Corporation, Newell Rubbermaid, Inc., Snap-On Incorporated and The Sherwin-Williams Company.

NEW YORK STOCK EXCHANGE CERTIFICATION

ANNUAL CEO CERTIFICATION (SECTION 303A.12(A))

As the Chief Executive Officer of The Stanley Works, and as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation by the Company of NYSE's Corporate Governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b) and disclosed on Exhibit H to the Company's Domestic Company Section 303A Annual Written Affirmation.

John F. Lundgren
Chairman & CEO
May 15, 2008

The Company has filed the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31(i)(a) and 31(i)(b) to its Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2009.

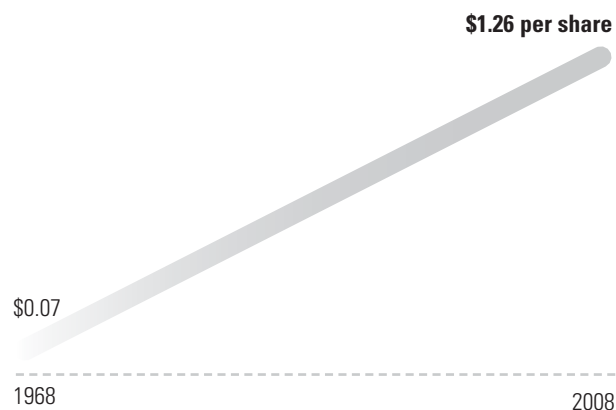
Additional Information

COMMON STOCK The Stanley Works common stock is listed on the New York Stock Exchange under the abbreviated ticker symbol "SWK" and is a component of the S&P 500 Composite Stock Price Index.

DIVIDENDS The Stanley Works has an impressive and truly unique dividend record over the long haul:

- > Our record of annual dividend payments is unmatched by any industrial company listed on the New York Stock Exchange – **132 CONSECUTIVE YEARS.**
- > Our quarterly dividend record is the longest of any industrial company listed on the New York Stock Exchange – **455 CONSECUTIVE QUARTERS.**
- > Our dividends have increased in each of the past **41 YEARS**, and during that same period, an investment in Stanley stock grew at a compound annual rate of 11%.

DIVIDENDS (DOLLARS PER SHARE: ADJUSTED TO REFLECT STOCK SPLITS)



TRANSFER AGENT AND REGISTRAR All shareowner inquiries, including transfer-related matters, should be directed to: Computershare Investor Services LLC, 2 North LaSalle St., Chicago, Illinois 60602. Toll-free telephone (888) 660-5513 or (312) 360-5292. www.computershare.com.

CORPORATE OFFICES The Company's principal corporate offices are located at: 1000 Stanley Drive, New Britain, CT 06053, (860) 225-5111.

ANNUAL MEETING The annual meeting of The Stanley Works will be held at 9:30 a.m. Eastern Time on Thursday, April 23, 2009, at the Stanley Center For Learning And Innovation, 1000 Stanley Drive, New Britain, CT. A formal notice of the meeting together with a proxy statement has been mailed to shareowners with this annual report.

INDEPENDENT AUDITORS Ernst & Young LLP, 225 Asylum Street, Hartford, Connecticut 06103.

FINANCIAL AND INVESTOR COMMUNICATIONS

The Stanley Works investor relations department provides information to shareowners and the financial community. We encourage inquiries and will provide services which include:

- > Fulfilling requests for annual reports, proxy statements, forms 10-Q and 10-K, copies of press releases and other company information.
- > Meetings with securities analysts and fund managers.

Contact The Stanley Works investor relations department at our corporate offices by calling **Kate White, Director, Investor Relations** at **(860) 827-3833**. We make earnings releases available on-line on the Internet on the day that results are released to the news media. The Stanley Works releases and a variety of shareowner information can be found at the Company's website: **www.stanleyworks.com**. Stanley shareowners may also call **(860) 827-3874** to request a copy of the most recent earnings release.

DIVIDEND REINVESTMENT PLAN AND STOCK PURCHASE PROGRAM

Shareowners may invest funds, have dividends automatically reinvested in Stanley common stock and/or make optional cash payments to increase their common stock investment. Inquiries regarding this service should be directed to the Company's transfer agent, Computershare Investor Services LLC at (888) 660-5513 or (312) 360-5292.

FINANCIAL HIGHLIGHTS AND SCORECARD FOOTNOTES

The company believes excluding the Q4 2008 after-tax restructuring and related charges of \$47 million (\$0.59 diluted EPS) is a better indicator of operating trends when analyzing EPS, ROCE and EBITDA due to the unusually large magnitude of these charges in relation to the past 5 years. Therefore the company has provided these measures both including and excluding such charges.

^(B) 2008 GAAP Diluted EPS is \$2.82. The 2008 pro forma Diluted EPS of \$3.41 excludes \$0.59 pertaining to the fourth quarter 2008 restructuring and related charges.

^(C) Free Cash Flow = Net cash provided by operating activities – capital expenditures – capitalized software. In 2008, free cash flow also excludes income taxes paid on the gain from the CST/berger divestiture due to the fact the taxes are non-recurring and the directly related gross cash proceeds are classified in investing cash flows. Refer to page 16 in the enclosed 10K for the reconciliation of operating cash flow to free cash flow.

^(D) Working Capital Turns are computed as year-end working capital (accounts receivable, inventory and accounts payable) divided by fourth quarter sales, annualized.

^(E) ROCE is computed as net earnings from continuing operations plus after-tax interest expense, divided by the 13-point average of debt and equity. ROCE as shown in the 2008 Scorecard excludes the \$47 million of after-tax, fourth quarter restructuring and related charges.



From left to right: Lawrence A. Zimmerman, Eileen S. Kraus, Patrick D. Campbell, Virgis W. Colbert, John F. Lundgren, John G. Breen, Marianne Miller Parrs, Carlos M. Cardoso, Robert B. Coutts.

BOARD OF DIRECTORS

John G. Breen^{1,2,5}

Retired; former Chairman and Chief Executive Officer
The Sherwin Williams Company

Patrick D. Campbell^{2,4}

Senior Vice President
and Chief Financial Officer
3M Company

Carlos M. Cardoso^{3,5}

Chairman of the Board,
President and Chief Executive Officer
Kennametal, Inc.

Virgis W. Colbert^{1,3,5}

Retired; former Executive Vice President
Miller Brewing Company

Robert B. Coutts^{3,4}

Retired; former Executive Vice President,
Electronic Systems
Lockheed Martin Corporation

Eileen S. Kraus^{1,2,3}

Retired; former Chairman
Fleet Bank, Connecticut

John F. Lundgren¹

Chairman and Chief Executive Officer
The Stanley Works

Marianne Miller Parrs^{2,4}

Retired; former Executive Vice President
and Chief Financial Officer
International Paper Company

Lawrence A. Zimmerman^{1,4,5}

Executive Vice President
and Chief Financial Officer
Xerox Corporation

¹ Member of the Executive Committee ² Member of the Audit Committee ³ Member of the Corporate Governance Committee ⁴ Member of the Finance and Pension Committee ⁵ Member of the Compensation and Organization Committee

EXECUTIVE OFFICERS

Donald Allan, Jr.

Vice President and Chief Financial Officer
(1999)

Jeffrey D. Ansell

Vice President and President, Consumer Tools Group
(1999)

Bruce H. Beatt

Vice President, General Counsel and Secretary
(2000)

D. Brett Bontrager

Vice President, Business Development and
President, Convergent Security Solutions
(2002)

Justin C. Boswell

Vice President and President,
Stanley Mechanical Solutions
(2000)

Jeff Hung-Tse Chen

Vice President and President, Stanley Asia
(1983)

Hubert W. Davis, Jr.

Senior Vice President, Business Transformation
(2000)

James M. Loree

Executive Vice President and Chief Operating Officer
(1999)

John F. Lundgren

Chairman and Chief Executive Officer
(2004)

Mark J. Mathieu

Vice President, Human Resources
(1997)

(Joined Stanley)





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