STANLEY: A WORKS IN PROGRESS



THE STANLEY WORKS > 1999 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

(Millions of Dollars, except per share amounts)	1999	1998	Change
Closing market price per share	**$ 30.125**	$ 27.75	9%
Total return (share price change plus dividends)	**12%**	(40%)	
Net sales	**$ 2,752**	$ 2,729	1%
Pro Forma Financial Highlights			
Core operating income	**$ 315**	$ 337	(7%)
Percent of sales	**11.4%**	12.4%	(100bp)
Core net earnings	**$ 185**	$ 193	(4%)
Per share	**$ 2.06**	$ 2.14	(4%)
Core return on capital employed	**13.1%**	14.8%	(170bp)
Dividends per share	**$ .87**	$ .83	5%

"Core" earnings, in 1998 and the first 6 months in 1999, exclude restructuring charges, restructuring-related transition costs and Y2K remediation costs. In addition, 1999 is exclusive of certain one-time charges and credits, which are described in the MD&A on pages 30-35.

(Millions of Dollars, except per share amounts)	1999	1998
Reported operating income	**$ 235**	$ 252
Reported net earnings	**$ 150**	$ 138
Per share, diluted	**$ 1.67**	$ 1.53

LONG-TERM FINANCIAL OBJECTIVES

SALES
Double industry's growth rate.

EARNINGS
Low- to mid-teens percentage growth rate.

OPERATING INCOME
Mid-teens percentage of sales.

OPERATING CASH FLOW
Approximately equal to net earnings.

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157TH MANAGEMENT LETTER TO SHAREOWNERS

TO OUR SHAREOWNERS:

1999 was a mixed year financially but one in which substantial progress was made in enabling us ultimately to become a Great Brand. Investors recognized that, and our share price appreciated 9% (one of three peer companies with an increase) while the group declined 15% as interest rate concerns and .com fever swept the markets.

> Sales were $2.8 billion, just 1% above last year, but trended up in the second half of the year with a 3% increase in the fourth quarter.

> Core earnings of $2.06 per share were 4% below 1998.

> Core operating margin slipped to 11.4% from 12.4% in 1998, as infrastructure investments for growth initiatives outweighed productivity savings.

> Cash flow from operations improved significantly to $222 million from $56 million in 1998 as ongoing transition costs associated with the 1997 restructuring program ended at mid-year.

> Return on capital employed on a core basis declined to 13.1% from 14.8% last year.

In many ways, 1999 was a "tale of two halves," with second half improvement enabling us to end the year on a positive note.

First half sales were flat with 1998. Our Hardware business felt the lingering effects of poor 1998 fill rates and lost market share. Likewise, our European business suffered from sluggish economies and a difficult pricing environment. Hechinger's/ Builder's Square, a key U.S. retailer, declared bankruptcy. Transition costs related to ongoing restructuring required another $42 million in the first half of 1999.

Yet, there were several positive signs. The aforementioned transition costs were curtailed as promised. Process improvements in operations began to take hold, and the excess costs that plagued 1998 were brought under control. Several key products were about to be launched, and fill rates were better. At Wal-Mart, for example, our tools group had achieved 100% fill rate for several consecutive weeks.

As the second half began, we were honored to be named the first Golden Hammer "Vendor of the Year" by the National Home Center News. This award recognized our overall improvement in serving customers and the long history of excellent customer relationships established by our predecessors.

With a 2% sales gain, elimination of $55 million of first half transition and Y2K costs and higher productivity, operating cash flow for the second half and year increased substantially. In the second half, operating cash flow was $162 million vs. $60 million in the first half, enabling debt-to-capital to decline from 46% to 38%.



OUR VISION AND STRATEGY ARE UNCHANGED. WE REMAIN COMMITTED TO BECOMING A GREAT BRAND AND INTEND TO BUILD UPON THE ACTIONS TAKEN OVER THE LAST SEVERAL YEARS.

GROWTH > New products are the lifeblood of a manufacturing enterprise. Over 100 products were introduced in 1999 including the 25-foot FatMax™ tape rule which sold 250,000 units in six months, the clamping mitre box which became The Home Depot's number one selling saw sku and a complete line of fastening tools. New products introduced in the past three years rose to 16% of sales, and should increase to 19% in 2000. For the first time in at least 20 years, the U.S. Industrial Designer's Society and *Business Week* recognized two products (100-foot long tape and high tension hacksaw) for their design innovation, making Stanley the only hardgoods company to be so honored.

Poor fill rates, or the inability to deliver what the customer orders on time, have plagued our company for several years. Part of the problem has been stock keeping unit (sku) proliferation without commensurate sales. That issue has been mitigated as the level has tumbled from 141,000 in March 1998 to 48,000 at year-end (ahead of the 56,000 target). Our objective is for another 20% reduction this year to 39,000 skus. The result of this effort has been substantial improvement in fill rates. For example, fill rates for our Husky® brand mechanics tools have consistently hovered around 98% in the last four months, and retail sales have soared.

POSITIONING > Over the summer it became apparent that the winning position at retail is to merchandise the stores effectively with innovative products. Termed the "War in the Store," a series of programs have been initiated to do just that. For example, a test in one region of a major retailer showed that a Contractor's Choice display with 14 different hand tools resulted in a 58% increase in retail sales over the comparable period. The display is now being rolled out to all its stores, and several other retailers will initiate the program in 2000.

Licensing helps achieve ubiquity for the Stanley® brand, and the portfolio has grown to 30 product families. Ten are already in the market, and the expectation is for 20 million units to be sold in 2000.

Positioning involves being in those industry segments that offer sustained greater-than-average profitability. The Internet provides a wonderful vehicle to achieve that objective. While the hype of the .com companies makes great conversation at parties and in taxicabs, the Internet will transform the way business is conducted since communication ultimately will be free. That means "availability" type information, i.e., where a product can be purchased, its price and feature content, etc. will be widely and instantly disseminated.

We are uniquely positioned in our industry to take advantage of this sea change.

For the 75% of our products sold through traditional distribution channels, the Internet serves as a communication vehicle for enhancing new product awareness and referring consumers to local retailers carrying specific products. The brand is the differentiator as many .com companies look like just another consolidator, albeit most without a brand name. Our corporate website, www.stanleyworks.com, is visited 1.9

million times per month. It will be enhanced with on-line literature, product demonstrations, a community where like-minded people can share problems and solutions and procurement capabilities in 2000.

For the remaining 25% sold directly to end users, the Internet enables unique presentation of the full breadth of our offering and the ability to reach new channels and more customers.

Illustrative is Jensen Tools, our catalog seller of tool kits and test equipment to telecom and other service professionals. It established its site (www.jensentools.com) late in 1997 and by 1999 had added 7,400 new customers (9% of its total). Internet sales were 4% of the total in 1999, and Jensen expects to achieve 7% in 2000. In addition, several market-specific sites and an extranet for direct customer access and ordering will be created. Our overall strategy is to be lean, learn and be profitable. Jensen provides an opportunity to achieve all three elements.

COMPETITIVENESS > The bulk of the restructuring was completed with 11 facility closures in 1999, and more than $10 million in benefits will carry over to 2000. Nonetheless, we have seen only the first seeds of the opportunity associated with operational excellence. On the structural side, only 17% of material came from low-cost countries in 1998. That will rise to 26% in 2000. A viable hardware business will require achievement of a cost position that rivals low-cost, no-name imports.

The Stanley Production System began to mature with over 500 events conducted in 1999 affecting more than 1,000 processes, and delivering almost $20 million in savings. Another 600 events are scheduled in 2000, and best practices are being shared through an intranet and training video.

Late in the year, we discovered that 25% of orders in several large U.S. businesses were for less than $100. Clearly, this is a distribution – not manufacturing – function. These shipments are unprofitable for our customers and us in that infrastructure cost and freight are far greater than the sales value. This is the next area to target as we strive for further SIMPLICITY, which will result in greater SPEED – the unassailable competitive weapon.

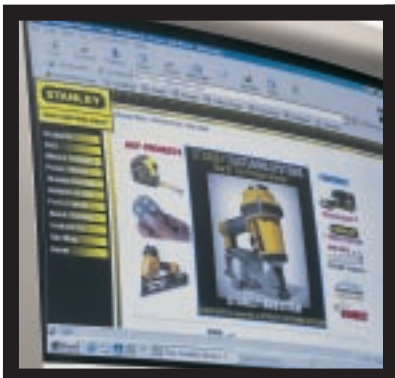
The investment thesis is still intact: a strong brand position, low market shares in absolute terms (though far higher than competitors in several product lines), low capital requirements and high operating leverage should enable sustained low- to mid-teens earnings growth. Moreover, global and industrial components as well as end market breadth mitigate any U.S. housing impact. The correlation of our sales with industrial production is high and with U.S. housing starts is very low. Given a reasonable economy and solid momentum as 1999 ended, we're looking forward to the beginning of the new millennium. The cash generating capability of our business allows us flexibility to take advantage of weak financial markets.

Finally, at this year's annual meeting, we will bid farewell to Edgar R. Fiedler who will retire from our Board of Directors. Ed has served our company as a director for 25 years, most recently as Chair of the Finance and Pension Committee and as a member of the Audit Committee. We will miss Ed's wise counsel and dedication, and thank him for his enormous contributions.

John M. Trani



GROWTH: INTERNET STRATEGY



THE STANLEY WORKS WEBSITE

At www.stanleyworks.com, consumers are able to examine new products, view product literature, access investor materials and determine the locations of nearby retailers carrying Stanley® products.

"For the 75% of our products sold through traditional distribution channels, the Internet serves as a vehicle for enhancing new product awareness and referring consumers to local retailers carrying specific products. The remaining 25% are sold directly to end users, thus the Internet provides opportunities to create new channels and to eliminate manual order entry." – J. M. Trani, February 2000.

The direct-to-end-user businesses can learn from Jensen®, our catalog business. Service opportunities include providing parts to industrial customers and new offerings to the installed base, e.g. Access Technologies door safety kits. Beyond these activities, the Internet provides us an efficient means to seek supplier bids and product development ideas, conduct market research and expand our efforts beyond the U.S. It will be a key enabler of costly infrastructure elimination.

Overall, the brand – supported by new products and contemporary merchandising – is the differentiator in the distribution segment of our markets. Ease of ordering and superior customer service are the objectives on the eCommerce opportunity base.

JENSEN TOOLS WEBSITE

At www.jensentools.com, professional customers in the telecommunications and equipment repair fields purchase tool kits, test equipment, storage items and various other needs.





FATMAX™ TAPE RULE 11-foot standout, a wider blade, easier-to-read graphics and a unique hook design… over 250,000 units were sold in the second half of 1999.

OUR COMMITMENT TO CONTINUOUS INNOVATION IS CREATING A STEADY STREAM OF NEW PRODUCTS AND BUSINESS OPPORTUNITIES WORLDWIDE.



GROWTH > In order to participate more fully in our expanded $27 billion market and grow sales at double our industry's growth rate, we must have a continuing flow of new products that make the professional's job easier and more productive, and a push into new or underserved market segments.

IN 1999:

> Two new products – the 25-foot FatMax™ tape rule and the ZAG® Rolling Workshop™ – were recipients of Retailers Choice Awards from *Do It Yourself Retailing Magazine*. The new MaxGrip™ locking adjustable wrench received a prestigious *Popular Mechanics* 1999 Editor's Choice Award, one of only 20 products so distinguished at this year's U.S. hardware show.

> Our clamping mitre box became the number one selling saw sku at The Home Depot.

WelcomeWatch™, our new keyless entry door system, was designed with more consumer research than any other product in Stanley's history. This led to features and benefits of security, lighting, convenience and beauty that make WelcomeWatch™ a potential growth platform.



> A new line of Bostitch® fastening tools targeting the expert enthusiast was introduced. In early 2000, new lightweight Bostitch® finish and framing nailers were introduced for professional and industrial markets. A new roofing nailer and several other introductions will complete the rejuvenation of this line in 2000.

> The 100-foot long tape and the high-tension hacksaw were recognized by The Industrial Design Society of America with Silver Industrial Design Excellence Awards (IDEAs), for excellence in tool design, the only hardgoods industry winners.

> Over 16% of sales came from products introduced in the last three years, up from 12.5% in 1998. That should rise to 19% in 2000, with a long-term objective of 25%.



FATMAX™

Terry Christensen, New Britain tape rule plant manager, Chris DeConti, manufacturing systems specialist, and the product development team, led by Miguel Nistal (not pictured), ensured that the FatMax™ tape met the critical product cue: 11 feet of stand out, tops in the industry.

WELCOME WATCH™

Homeowners with WelcomeWatch™ can lock or unlock their door and illuminate their entryway from up to 30 feet with a key fob. Security features include bright motion-activated lighting.





MAXGRIP™

John Turpin, acting President of Stanley Tools, accepts the prestigious 1999 Editor's Choice award for the MaxGrip™ locking adjustable wrench from *Popular Mechanics'* editor-in-chief, Joe Oldham.

WE INTRODUCED MORE THAN 200



MaxGrip™ Needle Nose Pliers are designed to work in very tight spots, using a patented dual pivot mechanism.



The ZAG® Tuff Mate™ is designed for the professional. Constructed of heavy plastic, it serves vice, workbench and storage needs.



The Contractor Grade™ Quick Blade Change Utility Knife features push-button blade change and swing out blade storage for easy access.



The Bostitch® N88 Framing Nailer, at only 7.8 pounds, delivers 1,000 inch pounds of driving power; its power-to-weight ratio is the highest available in its class.



The Mac Mentor™ is a versatile multi-purpose information system that collects data and analyzes automotive system problems.



The Stanley® MultiBit ScrewDrivers feature a patented ratcheting mechanism and a bi-material handle designed for maximum torque with minimum effort.

NEW PRODUCTS IN 1998 AND 1999.



The IntelliTools™ Digital Stud Sensor detects and differentiates wood, metal and live wire. Its LCD display features easy-to-read icons.



The MaxGrip™ Self-Adjusting Pliers use a patented dual position pivot on the pliers' head to self adjust to any size fastener up to 1".



The MaxGrip™ Locking Adjustable Wrench combines two tools in one, an adjustable wrench and a locking plier. The wrench's jaws close to lock onto a fastener.



The DynaGrip® Snap-Off Cartridge Knife is ergonomically designed for comfort and strength, while offering 48 new cutting edges without opening the cartridge.



The 3/8" Drive Indexible Head Ratchet's 24 different locking angles and 360° rotation allow the tool to be left on the fastener while changing positions.



The Bostitch® N62 Finish Nailer, at only 3.8 pounds, delivers 400 inch pounds of driving power; its power-to-weight ratio is the highest available in its class.



BOSTITCH® FRAMING NAILER The new Bostitch® N88 framing nailer, weighing 7.8 lbs., delivers 1,000 inch pounds of driving power, making its power-to-weight ratio higher than any competitor's product available in the market.

THE STANLEY FAMILY OF WORLD-CLASS BRANDS IS DESIGNED FOR PROFESSIONALS AND FOR THOSE WHO THINK LIKE THEM.

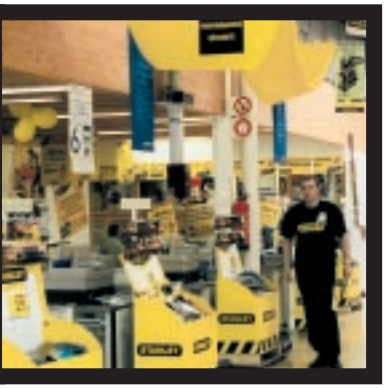
POSITIONING > Our challenge remains clear: make the Stanley® brand ubiquitous. Prior to 1999, our brand repositioning was launched with one look and feel achieved through consistency of colors and packaging. Our new slogan: "Stanley: Make Something Great™" was created to focus on the professional.

IN 1999:

> Over 100 ProShow 2000™ events were held at home center stores and lumberyards. The results: double-digit percentage increases in sell-through of Stanley® hand tools, fastening tools and door products…a combined win for us and our retail customers.

> Our licensing initiative is in full gear. There are now 30 licenses for products that complement our line. In 1999, drill bits, ladders and work boots were added. Over 20 million units of Stanley licensed products are expected to be sold in 2000.

A single-store promotion conducted in partnership with our European customer, Castorama, in May – their 30th anniversary – was a successful event as sales of Stanley® product doubled during the promotion period. In 2000, a similar event will be conducted at all their stores.



> The "War In The Store" initiative recognizes that our work continues until the consumer purchases Stanley® products. Contractor's Choice tool displays were introduced at high-traffic locations in one customer's region. With a 58% increase in point-of-sale results, the displays will be rolled out to all stores by mid-2000.



EVENTS

ProShow 2000™, an on-site product demonstration tour, provides consumers with information, product demonstrations, training for store associates and excitement at the point of sale at key retail outlets where Stanley® products are sold. Over 300 events are scheduled for 2000.

ADVERTISING

Print ads in trade, professional and end-user publications add support to new product introductions and help drive demand for them.





PRODUCT DEMONSTRATION

New Bostitch® professional finish and framing nailers were added to a new line of tools targeting the expert enthusiast. The Bostitch® fastening tool line is now the newest line in the industry! Here, Joyce Griffin demonstrates new products.



THE METAL ROLLING WORKSHOP™ ZAG's creativity and Stanley's breadth of distribution channels team up to bring innovative storage solutions to the professional.

BY SLIMMING DOWN AND REVVING UP OPERATIONS, WE'RE UNLEASHING THE FINANCIAL POWER NEEDED TO ENHANCE OUR BRAND AND BRING NEW PRODUCTS TO MARKET.

COMPETITIVENESS > The key enablers of growth for our company are competitiveness and exceptional customer service and they both depend upon simplicity, standardization and systemization.

IN 1999:

> We completed the initial restructuring program, having closed 31 manufacturing plants and 19 warehouses, reduced our workforce by 5,300 positions and streamlined our operations.

> Notable advances were made in shifting production to low-cost locations. Over 25% of our tape rules were produced in Thailand, up from 8% in 1998. About 20% of paint brushes (1% in 1998) and nearly 30% of residential hinges were made in China (15% in 1998).

Our operational progress and service improvements have been recognized by a number of customers. In addition on August 14, we were recognized as the first recipient of the Golden Hammer "Vendor of the Year" Award by *National Home Center News* at a special awards ceremony.



> There are Kaizen leaders at 14 large plants that account for 57% of our production. Over 500 Kaizen improvement events were conducted in 1998 and 1999, with 600 planned in 2000. Over 2,500 of our people and 1,000 internal processes have been "touched" by this initiative.

> Simplification in fewer skus, transactions and facilities…standardization of order-to-remittance processes…systemization through an integrated production-sales-inventory ("PSI") system…are the focus in order to become even faster.

> The number of skus, down from 141,000 to just over 60,000 at the beginning of 1999, was further reduced to 48,000.



PEOPLE

Tim Thomsen, Dallas mechanics tools plant manager, reviews Kaizen results with employees. This plant added over 37% wrench capacity in 1999, while raising customer fill rates and delivering 9% productivity.

PROCESS

In addition to physical improvements, the Wichita Falls, Texas team reduced inventories 75% and delivered 17% cost productivity improvement via Kaizen-based team events.





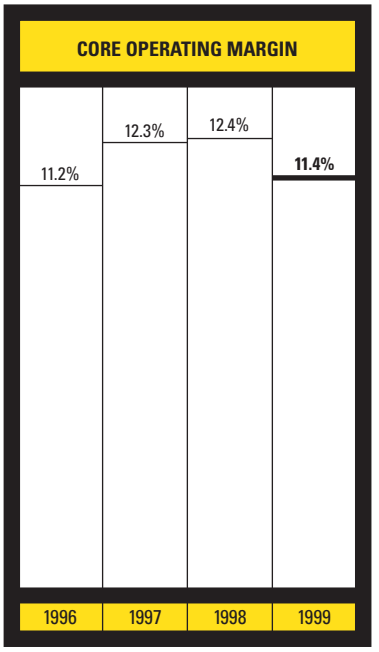
PRODUCTIVITY

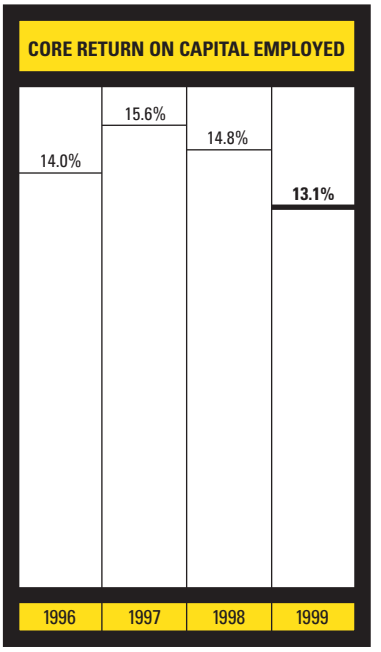
Productivity gains and service improvements have enabled Mac Tools to grow sales at record rates in 1998 and 1999. Here, Mac Tools' Bill Mack demonstrates new products to distributors at the annual Mac Tools Fair.

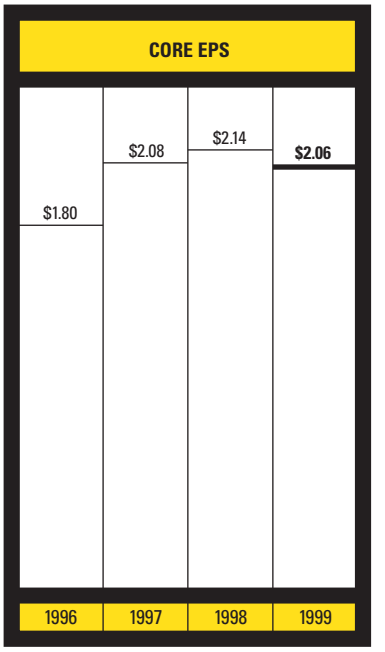
STANLEY: AT A GLANCE

	PRODUCT GROUPS / BUSINESS SEGMENT	PRINCIPAL PRODUCTS / BRANDS
	**HAND TOOLS** Tools	**Carpenters' hand tools, electronic tools, garden and masonry tools.** Stanley® / Contractor Grade™ / FatMax™ / MaxGrip™ / Dynagrip® / Powerlock® / IntelliTools™ / AccuScape™ / Goldblatt®
	**MECHANICS TOOLS** Tools	**Mechanics and industrial hand tools, air tools, toolboxes, electronic diagnostic tools.** Stanley® / Mac® / Proto® / Husky® / Jensen® / Vidmar® / ZAG®
	**FASTENING SYSTEMS** Tools	**Pneumatic fastening tools and fasteners.** Bostitch® / Atro®
	**AIR TOOLS** Tools	**DC Electric and pneumatic precision assembly tools and systems for the vehicle assembly market.** Stanley®
	**HYDRAULIC TOOLS** Tools	**Hand-held hydraulic tools; mounted hydraulic breakers, shears and crushers.** Stanley® / LaBounty®
	**DOOR SYSTEMS** Doors	**Residential entry doors, bi-fold and sliding closet doors, mirrored doors and decorative mirrors.** Stanley® / Stanley-Acmetrack™ / Monarch® / Acme® / WelcomeWatch™
	**HARDWARE** Doors	**Residential entry door hardware; consumer, residential architectural and industrial hardware.** Stanley®
	**ACCESS TECHNOLOGIES** Doors	**Power operated doors and sensors. Access door installation, repair and maintenance.** Stanley® / Magic-Door®

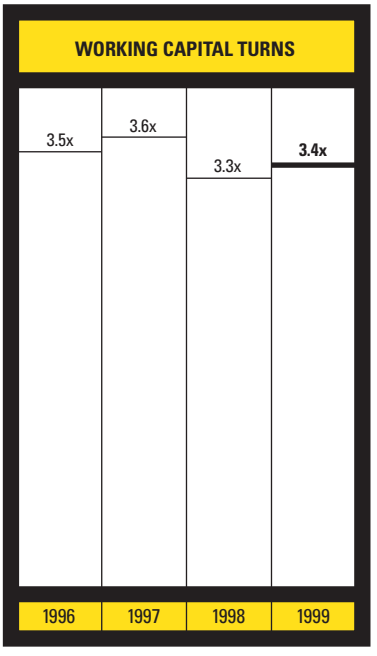
THE SCORECARD

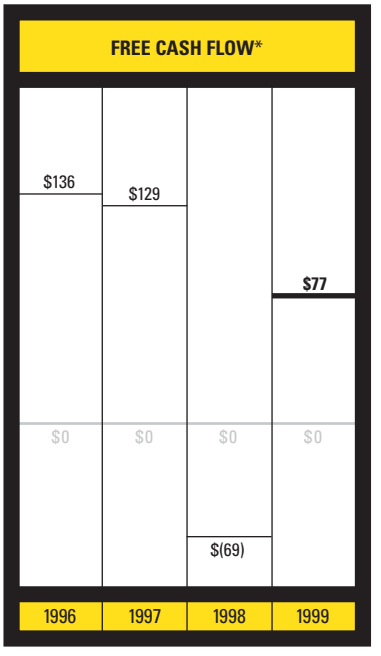


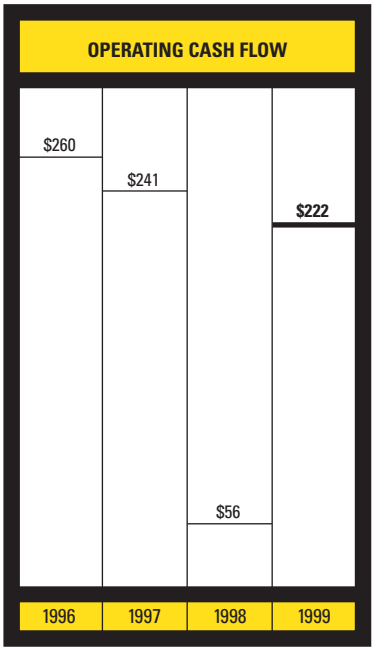




FOREMOST AMONG 1999's ACCOMPLISHMENTS WAS THE RETURN OF STRONG OPERATING CASH FLOWS.







CORE EARNINGS IN 1997, 1998 AND THE FIRST SIX MONTHS OF 1999 EXCLUDE RESTRUCTURING CHARGES, RESTRUCTURING-RELATED TRANSISTION COSTS AND OTHER NON-RECURRING COSTS AND Y2K REMEDIATION COSTS. IN ADDITION, 1999 IS EXCLUSIVE OF CERTAIN ONE-TIME CHARGES AND CREDITS WHICH ARE DESCRIBED IN MD&A, ON PAGES 30 - 35.

*FREE CASH FLOW = CASH FROM OPERATIONS + ASSET SALES – CAPITAL EXPENDITURES – CAPITALIZED SOFTWARE – DIVIDENDS.


WHEREVER YOU ARE, WHATEVER



YOU DO...

STANLEY®

MAKE SOMETHING GREAT™

SUMMARY OF SELECTED FINANCIAL

(Millions of Dollars, except per share amounts)	1999[A]	1998[B]	1997[C]	1996[D]
Continuing Operations[F]				
Net sales	$ 2,752	$ 2,729	$ 2,670	$ 2,671
Earnings (loss)	150	138	(42)	97
Earnings (loss) per share				
Basic	$ 1.67	$ 1.54	$ (.47)	$ 1.09
Diluted	$ 1.67	$ 1.53	$ (.47)	$ 1.08
Percent of Net Sales:				
Cost of sales	65.9%	65.7%	66.8%	67.2%
Selling, general and administrative	25.5%	25.1%	23.5%	22.8%
Interest-net	1.0%	.8%	.6%	.8%
Other-net	(.1%)	.5%	.8%	.8%
Earnings (loss) before income taxes	8.4%	7.9%	(.7%)	6.5%
Earnings (loss)	5.5%	5.1%	(1.6%)	3.6%
Other Key Information				
Total assets	$ 1,891	$ 1,933	$ 1,759	$ 1,660
Long-term debt	290	345	284	343
Shareowners' equity	$ 735	$ 669	$ 608	$ 780
Ratios:				
Current ratio	1.6	1.5	1.6	2.4
Total debt to total capital	37.8%	45.8%	40.5%	31.7%
Income tax rate	35.0%	36.0%	(125.4%)	44.4%
Return on average equity[F, G]	21.4%	21.6%	(6.0%)	12.8%
Common Stock Data:				
Dividends per share	$ .87	$ .83	$ .77	$ .73
Equity per share at year-end	$ 8.27	$ 7.54	$ 6.85	$ 8.79
Market price-high	35	57 1/4	47 3/8	32 13/16
-low	22	23 1/2	28	23 5/8
Average shares outstanding (in thousands)				
Basic	89,626	89,408	89,470	89,152
Diluted	89,887	90,193	89,470	89,804
Other Information:				
Earnings (loss) from continuing operations	$ 150	$ 138	$ (42)	$ 97
Cumulative effect of accounting change	–	–	–	–
Net earnings (loss)	$ 150	$ 138	$ (42)	$ 97
Net earnings (loss) per share[F, G]				
Basic	$ 1.67	$ 1.54	$ (.47)	$ 1.09
Diluted	$ 1.67	$ 1.53	$ (.47)	$ 1.08
Average number of employees	16,890	18,319	18,377	18,903
Shareowners of record at end of year	16,947	17,963	18,503	17,823

[A] Includes restructuring-related transition and other non-recurring costs of $54.9 million, or $.40 per share, a one-time net restructuring credit of $21.3 million, or $.15 per share, a mechanics tools' special charge of $20.1 million, or $.14 per share, and a gain realized upon the termination of a cross-currency financial instrument of $11.4 million, or $.08 per share.

[B] Includes restructuring-related transition and other non-recurring costs of $85.9 million, or $.61 per share.

[C] Includes charges for restructuring and asset write-offs of $238.5 million, or $2.00 per share, related transition costs of $71.0 million, or $.49 per share, and a non-cash charge of $10.6 million, or $.07 per share, for a stock option grant as specified in the company's employment contract with its chief executive officer.

[D] Includes charges for restructuring and asset write-offs of $47.8 million, or $.43 per share, related transition costs of $32.9 million, or $.23 per share, and a non-cash charge of $7.6 million, or $.08 per share, for elements of the company's employment contract with its chief executive officer.

INFORMATION

	1995[E]	1994	1993	1992	1991	1990	1989
	$ 2,624	$ 2,511	$ 2,273	$ 2,196	$ 1,942	$ 1,956	$ 1,951
	59	125	93	98	97	106	117
	$ .66	$ 1.40	$ 1.03	$ 1.07	$ 1.12	$ 1.26	$ 1.35
	$ .66	$ 1.38	$ 1.01	$ 1.06	$ 1.11	$ 1.25	$ 1.34
	68.2%	67.1%	68.3%	66.8%	66.0%	65.3%	64.8%
	22.5%	22.3%	22.5%	24.0%	23.8%	23.7%	23.0%
	1.2%	1.2%	1.1%	1.2%	1.3%	1.3%	1.3%
	.5%	1.4%	1.6%	.8%	.8%	.9%	1.0%
	4.3%	8.0%	6.5%	7.2%	8.1%	8.8%	9.9%
	2.3%	5.0%	4.1%	4.5%	5.0%	5.4%	6.0%
	$ 1,670	$ 1,701	$ 1,577	$ 1,608	$ 1,548	$ 1,494	$ 1,491
	391	387	377	438	397	398	416
	$ 735	$ 744	$ 681	$ 696	$ 689	$ 679	$ 659
	2.4	2.1	2.1	2.4	2.4	2.6	2.6
	39.6%	39.2%	38.7%	40.1%	37.6%	38.7%	39.6%
	47.6%	37.9%	37.4%	37.9%	38.0%	38.4%	39.6%
	8.0%	17.6%	13.5%	14.1%	14.1%	15.8%	17.3%
	$ .71	$ .69	$ .67	$ .64	$ .61	$ .57	$ .51
	$ 8.28	$ 8.37	$ 7.62	$ 7.66	$ 7.61	$ 8.25	$ 7.66
	26 11/16	22 7/16	23 15/16	24 1/16	22	19 7/8	19 5/8
	17 13/16	17 7/16	18 15/16	16 1/4	13	13 5/16	13 3/4
	89,043	89,550	89,871	91,405	86,532	84,384	86,756
	89,839	90,656	91,296	92,842	87,552	84,770	87,194
	$ 59	$ 125	$ 93	$ 98	$ 97	$ 106	$ 117
	–	–	(9)	–	(12)	–	–
	$ 59	$ 125	$ 84	$ 98	$ 85	$ 106	$ 117
	$ .66	$ 1.40	$ .94	$ 1.07	$ .98	$ 1.26	$ 1.35
	$ .66	$ 1.38	$ .92	$ 1.06	$ .97	$ 1.25	$ 1.34
	19,784	19,445	18,988	18,650	17,420	17,784	18,464
	16,919	17,599	20,018	20,661	21,297	22,045	22,376

[E] Includes charges for restructuring and asset write-offs of $85.5 million, or $.72 per share, and related transition costs of $9.5 million, or $.06 per share.

[F] Excluding the cumulative after-tax effect of accounting changes for postemployment benefits of $8.5 million, or $.09 per share, in 1993 and postretirement benefits of $12.5 million, or $.14 per share, in 1991.

[G] Earnings per share and return on average equity excluding restructuring charges, asset write-offs, related transition costs and other non-recurring charges would have been $2.06 per share and 16.2% in 1999, $2.14 per share and 18.7% in 1998, $2.08 per share and 19.9% in 1997, $1.83 per share and 18.9% in 1996 and $1.45 per share and 16.6% in 1995.

MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

The management of The Stanley Works is responsible for the preparation, integrity and objectivity of the accompanying financial statements. The statements were prepared in accordance with generally accepted accounting principles. Preparation of financial statements and related data involves our best estimates and the use of judgment. Management also prepared the other information in the Annual Report and is responsible for its accuracy and consistency with the financial statements.

The company maintains a system of internal accounting controls which is designed to provide reasonable assurance, at appropriate cost, as to the reliability of financial records and the protection of assets. This system includes monitoring by an internal audit function. It is further characterized by care in the selection of competent financial managers, by organizational arrangements that provide for delegation of authority and divisions of responsibility and by the dissemination of policies and procedures throughout the company.

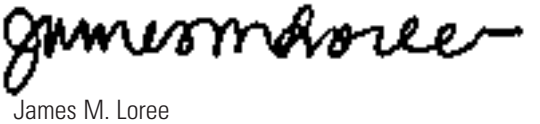
Management is also responsible for fostering a strong, ethical climate so that the company's affairs are conducted according to the highest standards of personal and business conduct. This responsibility is reflected in the company's Business Conduct Guidelines which are publicized throughout the organization. The company has a long-established reputation of integrity in business conduct and maintains a systematic program to assess compliance with these policies.

The adequacy of Stanley's internal accounting controls, the accounting principles employed in its financial reporting and the scope of independent and internal audits are reviewed by the Audit Committee of the Board of Directors, consisting solely of outside directors. Both the independent auditors and our internal auditors have unrestricted access to the Audit Committee, and they meet with it periodically, with and without management present.

January 26, 2000



John M. Trani
Chairman and Chief Executive Officer



James M. Loree
Chief Financial Officer

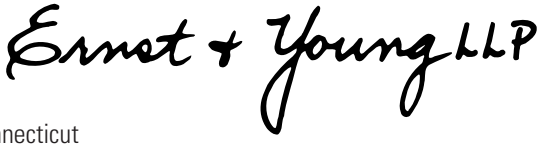
REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Shareowners
The Stanley Works

We have audited the accompanying consolidated balance sheets of The Stanley Works and subsidiaries as of January 1, 2000 and January 2, 1999, and the related consolidated statements of operations, changes in shareowners' equity, and cash flows for each of the three fiscal years in the period ended January 1, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Stanley Works and subsidiaries at January 1, 2000 and January 2, 1999, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 1, 2000, in conformity with accounting principles generally accepted in the United States.



Hartford, Connecticut
January 26, 2000

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Overview

Stanley is a worldwide producer of tools and door products for professional, industrial and consumer use. The company's strategic goal is to become one of the world's Great Brands, delivering sustained, profitable growth. In order to achieve that goal the company has established financial targets of sales growth at two times the industry rate, earnings growth in the low- to mid-teens, operating margin in the mid-teens, operating cash flow approximately equal to earnings and return on capital in the low- to mid-twenties. In connection with these goals, the company experienced mixed results in 1999. Consequently, all uncompleted restructuring initiatives were re-evaluated in the fourth quarter of 1999 and certain initiatives were cancelled requiring the reversal of previously established restructuring reserves. The company is now focused on the operational improvements to drive targeted financial results. In October 1999 the company launched PlayBook 2000, a framework of initiatives to drive sales growth, cost competitiveness and operational process efficiency. The company recorded a charge in the fourth quarter to establish restructuring reserves and related asset write-offs for certain of the competitiveness initiatives encompassed by this program. A net credit of $21.3 million resulted from this change in restructuring plans.

Results of Operations

Net sales in 1999 were $2,752 million, an increase of 1% over 1998. ZAG Industries Ltd. ("ZAG"), acquired in August 1998, contributed 2% to this sales growth which was partially offset by a 1% reduction in sales from the net effect of pricing and foreign currency translation. The company experienced double-digit sales growth in U.S. residential doors and solid volume gains in U.S. hand tools and mechanics tools. These increases were offset by weak Latin American sales, lower sales of hardware products and a decline in industrial mechanics tools, where despite strong demand, difficulties in the fourth quarter installation of a new distribution system temporarily interrupted shipments. In addition, European sales volume was negatively affected earlier in 1999 by inefficiencies stemming from the closure of a distribution center and strong competition in the fastening systems business.

Net sales in 1998 were $2,729 million, an increase of 2% over 1997. The primary contributors to the revenue gain were the MacDirect program, growth in consumer mechanics tools, fastening tools and fasteners and acquisitions (ZAG and Atro). These gains were partially offset by the negative effects of foreign currency translation, primarily Asia and Canada.

Financial results for 1997, 1998 and the first six months of 1999 include transition expenses related to the company's restructuring initiatives. These costs are classified as period operating expenses within cost of sales or selling, general and administrative expense. They include the costs of moving production equipment, operating duplicate facilities while transferring production or distribution, consulting costs incurred in planning and implementing changes, and other types of costs that have been incurred to facilitate restructuring. Management's judgment was used to determine which costs should be classified as transition costs based on whether the costs were unusual in nature, were incurred only because of restructuring initiatives and were expected to cease when the transition activities ended. The total program transition costs from inception of the restructuring initiatives in 1997 were $101 million. In addition, the company incurred costs to remediate its computer and related systems so that these systems would function properly with regard to date issues related to Y2K. Because the presence of restructuring charges, restructuring-related transition costs and non-recurring Y2K remediation costs obscure the underlying trends within the company's business, the company also provides information on its results for 1997, 1998 and the first six months of 1999 excluding these identifiable costs. These pro forma or "core" results are the basis of business segment information. The narrative regarding results of operations has also been expanded to provide information as to the effects of these items on each financial statement category. Effective in the third quarter 1999, these costs were essentially eliminated.

Results in 1999 also included a special charge in the fourth quarter as the company re-evaluated and established higher estimates for loss provisions on receivables, inventory and other assets related to its mechanics tools businesses, principally MacDirect. The changes in estimates were based on the company's evolving experience in managing a direct mobile sales force in the automotive channel as well as inefficiencies in operating mechanisms and systems. Of the total $20 million special charge to income, $3 million was included in net sales, $11 million was included in cost of sales, $11 million was included in selling, general and administrative expenses and a credit of $5 million was included in other income. The level of this charge is not expected to recur as the company has developed certain operating mechanisms and systems which should substantially enhance the operational management of the related businesses.

In 1999, the company reported gross profit of $938 million or 34.1% of net sales compared to 34.3% in 1998. Included in cost of sales for 1999 were $20 million of restructuring-related transition costs, primarily for plant rationalization activities, and the mechanics tools' special charges of $11 million. Cost of sales in 1998 included $17 million of restructuring-related transition costs. Gross profit in 1999 excluding these restructuring-related and special charges was 35.3% of net sales compared with 34.9% for 1998. This improvement is attributable to a combination of improved cost controls in operations, accelerating in the second half of 1999, and the benefits of the company's 1997 restructuring.

Reported gross profit in 1998 was $936 million, or 34.3% of sales, and represented an increase of $50 million, or 6%, over 1997 reported gross profit of $886 million, or 33.2% of sales. The improvement resulted from productivity gains from restructuring and centralized procurement activities, the MacDirect program, and lower spending on transition costs in 1998 versus 1997. Included in cost of sales were restructuring-related transition costs, primarily for plant rationalization activities, of $17 million in 1998 and $31 million in 1997. The higher costs in 1997 related to demand flow manufacturing implementation activities in several facilities. Core gross profit, excluding transition costs, was $953 million, or 34.9% of sales, up from $917 million or 34.4% of sales in the prior year.

Selling, general and administrative expenses were $703 million, or 25.5% of net sales, in 1999, as compared with $685 million, or 25.1% of net sales in 1998. Included in 1999 were $35 million of restructuring-related transition and other non-recurring costs and fourth quarter special charges related to mechanics tools of $11 million. Included in 1998 were $69 million of restructuring-related transition and other non-recurring costs. Restructuring-related costs includes consulting for structural reorganization, recruiting and relocation of employees, the cost of transition employees involved in reorganizing the functions and the cost of moving and maintaining duplicative distribution facilities. Excluding these costs and the fourth quarter special charges, selling, general and administrative expenses increased to $657 million in 1999 from $616 million in 1998. This increase is primarily the result of the ZAG acquisition, and higher selling and administrative costs related to an increased number of sales representatives in the MacDirect program.

Selling, general and administrative expenses in 1998 were $685 million, up $57 million from 1997 expenses of $628 million, or 23.5% of sales. Approximately $30 million of the increase represented higher restructuring-related transition and other non-recurring costs, which increased from $40 million in 1997 to $69 million in 1998. Incremental spending on systems for Y2K remediation of $39 million contributed to the remaining increase. Excluding transition and non-recurring costs, selling, general and administrative expenses would have been $616 million, or 22.6% of sales, as compared with $588 million, or 22.0% of sales, in 1997. The increase was primarily due to higher selling costs associated with the MacDirect program.

Net interest expense increased to $28 million in 1999 from $23 million in 1998. The increase, which occurred primarily in the first half of 1999, reflected increased levels of debt associated with the ZAG acquisition and higher levels of working capital. The company used cash flow from operations generated in the third and fourth quarter to repay debt resulting in reduced interest expense in the latter half of the year. Net interest expense increased 39% in 1998 from 1997, primarily due to higher levels of debt used for funding acquisitions and increased working capital.

Other net was $2 million of income in 1999 compared with $13 million in expense for 1998. Included in 1999 results was a non-recurring gain of $11 million realized upon the termination of a cross-currency financial instrument. Included in 1997 was a non-cash charge of $11 million related to the value of stock options granted to the company's chief executive officer.

The company's 1999 effective annual income tax rate was 35.0%, reflecting continued benefit of structural changes implemented in late 1998, as well as an increase in the company's ability to utilize foreign tax credits associated with a higher portion of the company's taxable income being earned overseas. The company's effective tax rate was 36% in 1998. While 1997 was significantly affected by non-deductible restructuring charges, the pro forma effective rate on core earnings for 1997 was 37.5%.

Business Segment Results

The Tools segment includes carpenters, mechanics, pneumatic and hydraulic tools as well as tool sets. The Doors segment includes commercial and residential doors, both automatic and manual, as well as closet doors and systems, home decor and door and consumer hardware. The information presented below excludes restructuring charges, restructuring-related transition and other non-recurring costs for 1997, 1998 and the first half of 1999. Segment eliminations are also excluded. Special fourth quarter charges related to mechanics tools of $25 million are reflected in Tools segment results.

Tools	**1999**	**1998**	**1997**
(Millions of Dollars)			
Net Sales	$ 2,116	$ 2,108	$ 2,024
Operating Profit	$ 248	$ 279	$ 277
% of Net Sales	11.7%	13.2%	13.7%

While tools sales overall were relatively flat in 1999, they included a 2% increase from the acquisition of ZAG and volume improvements in the U.S. hand and mechanics tools businesses. These increases were offset by lower sales in Europe and Latin America and a decline in industrial mechanics tools. Core operating profit for the tools segment excluding the special charges was 12.9% of net sales, a slight decline from 1998 due to higher selling, general and administrative expenses.

Net sales increased 4% in 1998 compared to 1997, due primarily to the growth of the MacDirect program and acquisitions. Growth in consumer mechanics tools and fastening tools and fasteners also contributed to higher sales. Core operating profit increased, although as a percent of sales it was slightly lower than the prior year. Productivity gains from procurement and restructuring initiatives were offset by operating inefficiencies at several plants.

Doors	**1999**	**1998**	**1997**
(Millions of Dollars)			
Net Sales	$ 636	$ 621	$ 646
Operating Profit	$ 42	$ 59	$ 52
% of Net Sales	6.6%	9.5%	8.1%

Net sales increased 2% in 1999, driven by strong unit volume increases in residential entry doors and home décor products. This growth was substantially offset by weakness in the hardware business. Core operating profit declined by $17 million due to costs associated with relocating hardware production to lower-cost locations and increased provisions for uncollectible accounts receivables.

Net sales decreased 4% in 1998 versus 1997, due to the divestiture in 1998 of the European automatic door business as well as the February 1997 divestiture of the U.S. garage related products business. In addition, all remaining product lines experienced a sales decline except for the automatic door business in the U.S. Operating margin improved to 9.5%, primarily the result of the divestitures, restructuring initiatives and reduction in material costs.

Restructuring Activities

In 1999, the company completed most of the restructuring initiatives announced in 1997. The 1997 plan called for spending $340 million (approximately $240 million of restructuring charges recorded in 1997 and $101 million of transition costs from 1997 to 1999) to generate annual savings of $145 million, all of which was to be reinvested in growth initiatives. To date the company has closed 50 facilities and reduced net employment by approximately 2,700 people to deliver annual benefits as anticipated, however, these were largely offset by operational problems.

Reserves for restructuring activities as of the beginning of 1999 were $154 million, of which $73 million related to severance, $44 million related to asset write-downs, and $37 million related to environmental remediation and other exit costs. In 1999, severance of $44 million, asset write-downs of $13 million, and payments for other exit costs of $17 million reduced these reserves to $80 million. In the fourth quarter of 1999, the company completed an evaluation of these remaining reserves and determined that certain projects would be cancelled. Accordingly, the company reversed $62 million of reserves established for such actions. Net reserves of $18 million, $12 million for severance, $2 million for asset write-downs and $4 million for environmental and other exit costs, will be utilized for costs generated from projects initiated, however, not completed as of the end of 1999. Also in the fourth quarter, new projects were approved as part of the PlayBook 2000 initiative, including eight facility closures and the related relocation of production, a reduction in workforce in administrative and sales functions and the outsourcing of non-core activities as well as the asset impairments related to those initiatives. These actions are expected to result in a net employment reduction of approximately 1,000 people. The company recorded restructuring charges related to these new initiatives of $40 million ($32 million related to severance and other exit costs, and $8 million related to asset write-downs).

FINANCIAL CONDITION

Liquidity, Sources and Uses of Capital

The company has historically generated strong cash flows from operations. During 1999 the company generated $222 million in operating cash flow, a significant increase from $56 million in the prior year. This increase resulted primarily from better working capital management and a significant reduction in restructuring-related transition costs, both occurring in the second half of 1999. In 1999, the company's receivables increased by $29 million, inventory was relatively flat, and accounts payable increased by $53 million. The company made cash payments of $61 million for its restructuring activities, primarily severance, and incurred $55 million in restructuring-related transition and Y2K remediation costs. Cash outflows relating to the restructuring activities are expected to continue, although at a significantly reduced level, throughout 2000.

Capital expenditures were $78 million in 1999 up from $57 million last year. Investment in capital during 1998 was lower than traditional levels and lower than depreciation and amortization as a result of facility consolidations, continued outsourcing and the Stanley Production System (which focuses on continuous improvement) all of which reduced the requirement for operating capital. The level of spending should continue at the more traditional level incurred in 1999.

In 1999 the company issued $120 million of 5 year debt to capitalize on favorable interest rates and reduce its reliance on short-term sources of funds, which had been opportunistically used to fund the ZAG acquisition. Strong second half cash flows were used to repay over $100 million in borrowings bringing the debt to capital ratio down to 37.8% at the end of 1999.

The company's objective is to increase dividends by at least one-half the company's earnings growth rate, ultimately reaching a dividend payout ratio of 25%. Dividends increased 5% in 1999 and 8% in 1998.

The company repurchased 966,000 shares of its common stock in 1999 primarily to offset the dilutive impact of employee benefit programs (stock awards, options, etc.). The net effect was a decrease in equity of $6 million in 1999. The company has indicated that it may continue to repurchase its shares when they are deemed to be undervalued in the marketplace. As of January 1, 2000 the company had authorization to repurchase 2,952,000 shares and has purchased 755,000 shares through February 18, 2000.

Market Risk

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. The company is exposed to market risk from changes in foreign currency exchange rates and interest rates. Exposure to foreign currency risk results because the company, through its global businesses, enters into transactions and makes investments denominated in multiple currencies. The company's predominant exposures are in European, Canadian and Asian currencies. All cross-currency trade flows arising from sales and procurement activities are consolidated and netted prior to obtaining risk protection, primarily purchased basket options. The company is thus able to capitalize on its global positioning by taking advantage of naturally offsetting exposures to reduce the cost

of purchasing protection. From time to time, the company also enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables, predominantly intercompany transactions. Gains and losses from these hedging instruments offset the gains or losses on the underlying net exposures, assets and liabilities being hedged. The company has also entered into several cross-currency interest rate swaps, primarily to reduce overall borrowing costs, but also to provide a partial hedge of the net investments in certain subsidiaries. Sensitivity to foreign currency exposure risk from these financial instruments at the end of 1999 would have been immaterial based on the potential loss in fair value from a hypothetical 10% adverse movement in all currencies.

The company's exposure to interest rate risk results from its outstanding debt obligations, short term investments and derivative financial instruments employed in the management of its debt portfolio. The debt portfolio is managed to achieve capital structure targets and reduce the overall cost of borrowing by using a combination of fixed and floating rate debt as well as interest rate swaps, caps and cross-currency interest rate swaps. The company's primary exposure to interest risk comes from its floating rate debt in the U.S., Canada and Europe and is fairly represented by changes in LIBOR rates. At January 1, 2000, the result of a hypothetical one percentage point increase in short term LIBOR rates would not have resulted in a material impact on the pretax profit of the company.

The company has access to financial resources and borrowing capabilities around the world. The company believes that its strong financial position, operating cash flows and borrowing capacity provide the financial flexibility necessary to continue its record of annual dividend payments, to invest in the routine needs of its businesses, to make strategic acquisitions and to fund the restructuring and other initiatives encompassed by its growth strategy.

OTHER MATTERS

Environmental

The company incurs costs related to environmental issues as a result of various laws and regulations governing current operations as well as the remediation of previously contaminated sites. Future laws and regulations are expected to be increasingly stringent and will likely increase the company's expenditures related to routine environmental matters.

The company accrues for anticipated costs associated with investigatory and remediation efforts in accordance with appropriate accounting guidelines which address probability and the ability to reasonably estimate future costs. The liabilities are reassessed whenever circumstances become better defined or remediation efforts and their costs can be better estimated. Subject to the imprecision in estimating future environmental costs, the company believes that any sum it may pay in connection with environmental matters in excess of the amounts recorded will not have a materially adverse effect on its financial position, results of operations or liquidity.

Year 2000 Systems Issues

The company had no significant Y2K-related system problems or business disruptions. The aggregate cost of the company's Y2K efforts, which included internal and incremental costs, was $113 million. Approximately 25% of the total cost was capitalized.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting For Derivative Instruments and Hedging Activities," which was originally to be effective in fiscal year 2000. In May 1999, the Financial Accounting Standards Board deferred the effective date for one year and the standard now will be effective in fiscal year 2001. The adoption of this standard is not expected to have a material impact on the company's balance sheet, operating results or cash flows.

Cautionary Statements

The statements contained in this annual report to shareowners regarding the company's ability (i) to become a Great Brand and deliver sustained, profitable growth (e.g., sales growth at twice the industry rate, earnings growth in the low- to mid-teens, operating cash flow approximately equal to earnings and dividends increasing by at least one-half the company's earnings growth), (ii) to lower the overall cost structure to become more competitive (including sourcing 26% of product cost from low-cost countries in 2000), (iii) to obtain sales growth from the implementation of sales and marketing programs, (iv) to drive working capital efficiency and continue to generate cash and (v) to avoid future special charges at the level incurred in 1999 in the mechanics tools business are forward looking and inherently subject to risk and uncertainty.

The company's ability to lower its overall cost structure is dependent on the success of various initiatives to improve manufacturing operations and to implement related cost control systems and to source from and manufacture a higher percentage of the company's products in low-cost countries. The success of these initiatives is dependent on the company's ability to increase the efficiency of its routine business processes, to develop and implement process control systems, to develop and execute comprehensive plans for facility consolidations, the availability and effectiveness of vendors to perform outsourced functions, the availability of lower cost raw material of suitable quality from foreign countries, the successful recruitment and training of new employees, the resolution of any labor issues related to closing facilities, the need to respond to significant changes in product demand while any facility consolidation is in process and other unforeseen events. In addition, the company's ability to leverage the benefits of gross margin improvements is dependent upon maintaining selling, general and administrative expense at 1999 levels (excluding fourth quarter 1999 special charges). The company's ability to maintain the level of selling, general and administrative expenses is dependent upon various process improvement activities, the successful implementation of changes to the sales organization and the reduction of transaction costs.

The company's ability to achieve sales growth is dependent upon a number of factors, including: (i) the ability to recruit and retain a sales force comprised of employees and manufacturers reps, (ii) the success of the company's sales and marketing programs to increase retail sell through and stimulate demand for the company's products, (iii) the ability of the sales force to adapt to changes made in the sales organization and achieve adequate customer coverage, (iv) the ability of the company to fulfill demand for its products, (v) the absence of pricing pressures from customers and competitors and the ability to defend market share in the face of price competition, (vi) the ability to improve the cost structure in order to fund new product and brand development and (vii) the acceptance of the company's new products in the marketplace as well as the ability to satisfy demand for these products.

The company's ability to drive working capital efficiency and continue to generate cash is dependent on the continued success of improvements in processes to manage inventory and receivable levels.

The company's ability to avoid future special charges related to its mechanics tools business at the level incurred in 1999 is dependent upon the success of the operating mechanisms and systems being implemented to provide necessary controls over and visibility to the business.

The company's ability to achieve the objectives discussed above will also be affected by external factors. These external factors include pricing pressure and other changes within competitive markets, the continued consolidation of customers in consumer channels, increasing competition, changes in trade, monetary and fiscal policies and laws, inflation, currency exchange fluctuations, the impact of dollar/foreign currency exchange rates on the competitiveness of products and recessionary or expansive trends in the economies of the world in which the company operates.

BUSINESS SEGMENT INFORMATION

Business Segments

In 1998, the company adopted SFAS No. 131, "Disclosure about Segments of a Business Enterprise and Related Information." Prior period amounts have been restated for comparability.

The company operates worldwide in two reportable business segments: Tools and Doors. The Tools segment includes carpenters, mechanics, pneumatic and hydraulic tools as well as tool sets. The Doors segment includes commercial and residential doors, both automatic and manual, as well as closet doors and systems, home decor and door and consumer hardware.

Business Segments

(Millions of Dollars)	1999	1998	1997
Net Sales			
Tools	$ 2,116.2	$ 2,107.8	$ 2,023.6
Doors	635.6	621.3	645.9
Consolidated	$ 2,751.8	$ 2,729.1	$ 2,669.5
Operating Profit			
Tools	$ 248.1	$ 278.6	$ 276.8
Doors	41.7	58.9	52.6
	289.8	337.5	329.4
Restructuring, transition and other costs	(33.6)	(85.9)	(320.1)
Interest-net	(27.9)	(23.1)	(16.6)
Other-net	2.5	(13.1)	(11.3)
Earnings (loss) before income taxes	$ 230.8	$ 215.4	$ (18.6)
Segment Assets			
Tools	$ 1,455.1	$ 1,462.9	$ 1,227.6
Doors	306.4	279.6	291.5
	1,761.5	1,742.5	1,519.1
Corporate assets	129.1	190.4	239.6
Consolidated	$ 1,890.6	$ 1,932.9	$ 1,758.7
Capital Expenditures			
Tools	$ 90.2	$ 53.1	$ 70.2
Doors	12.7	11.6	13.9
Depreciation and Amortization			
Tools	$ 70.1	$ 64.7	$ 59.9
Doors	15.5	15.0	12.5

General Information

The company assesses the performance of its reportable business segments using operating profit, which follows the same accounting policies as those described in Note A to the Financial Statements. Operating profit excludes interest-net, other-net, and income tax expense. In addition, operating profit excludes restructuring and asset write-offs, restructuring-related transition costs associated with the company's restructuring plans and other non-recurring costs. Corporate and shared expenses are allocated to each segment. Sales between segments are not material. Segment assets primarily include accounts receivable, inventory, other current assets, property, plant and equipment, intangible assets and other miscellaneous assets. Corporate assets and unallocated assets are cash, deferred income taxes and certain other assets. Geographic net sales and long-lived assets are attributed to the geographic regions based on the geographic location of the Stanley subsidiary.

Sales to one customer in both the Tools and Doors segments were approximately 15%, 14% and 12% of consolidated net sales in 1999, 1998 and 1997, respectively.

Geographic Areas

(Millions of Dollars)	1999	1998	1997
Net Sales			
United States	$ 1,962.5	$ 1,953.4	$ 1,900.6
Other Americas	199.0	211.9	227.1
Europe	493.2	467.5	423.6
Asia	97.1	96.3	118.2
Consolidated	2,751.8	$ 2,729.1	$ 2,669.5
Long-Lived Assets			
United States	$ 442.1	$ 461.1	$ 479.7
Other Americas	28.1	25.4	31.0
Europe	286.3	284.3	159.8
Asia	36.7	41.7	46.8
Other	6.4	34.0	36.1
Consolidated	$ 799.6	$ 846.5	$ 753.4

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal years ended January 1, 2000, January 2, 1999 and January 3, 1998

(Millions of Dollars, except per share amounts)	1999	1998	1997
Net Sales	**$ 2,751.8**	$ 2,729.1	$ 2,669.5
Costs and Expenses			
Cost of sales	**1,813.9**	1,792.8	1,783.4
Selling, general and administrative	**703.0**	684.7	627.7
Interest-net	**27.9**	23.1	16.6
Other-net	**(2.5)**	13.1	21.9
Restructuring and asset write-offs	**(21.3)**	–	238.5
	2,521.0	2,513.7	2,688.1
Earnings (Loss) Before Income Taxes	**230.8**	215.4	(18.6)
Income Taxes	**80.8**	77.6	23.3
Net Earnings (Loss)	**$ 150.0**	$ 137.8	$ (41.9)
Net Earnings (Loss) Per Share of Common Stock			
Basic	**$ 1.67**	$ 1.54	$ (.47)
Diluted	**$ 1.67**	$ 1.53	$ (.47)

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

January 1, 2000 and January 2, 1999

(Millions of Dollars)	1999	1998
Assets		
Current Assets		
Cash and cash equivalents	**$ 88.0**	$ 110.1
Accounts and notes receivable	**546.1**	517.0
Inventories	**381.2**	380.9
Deferred taxes	**34.2**	43.6
Other current assets	**41.5**	34.8
Total Current Assets	**1,091.0**	1,086.4
Property, Plant and Equipment	**520.6**	511.4
Goodwill and Other Intangibles	**185.2**	196.9
Other Assets	**93.8**	138.2
Total Assets	**$1,890.6**	$1,932.9
Liabilities and Shareowners' Equity		
Current Liabilities		
Short-term borrowings	**$ 145.3**	$ 207.8
Current maturities of long-term debt	**11.7**	14.2
Accounts payable	**225.0**	172.1
Accrued expenses	**311.0**	308.0
Total Current Liabilities	**693.0**	702.1
Long-Term Debt	**290.0**	344.8
Restructuring Reserves	**1.3**	34.2
Other Liabilities	**170.9**	182.4
Shareowners' Equity		
Preferred stock, without par value:		
Authorized and unissued 10,000,000 shares		
Common stock, par value $2.50 per share:		
Authorized 200,000,000 shares;		
issued 92,343,410 shares in 1999 and 1998	**230.9**	230.9
Retained earnings	**926.9**	867.2
Accumulated other comprehensive loss	**(99.2)**	(84.6)
ESOP debt	**(202.2)**	(213.2)
	856.4	800.3
Less: cost of common stock in treasury		
(3,398,235 shares in 1999 and 3,571,482 shares in 1998)	**121.0**	130.9
Total Shareowners' Equity	**735.4**	669.4
Total Liabilities and Shareowners' Equity	**$1,890.6**	$1,932.9

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal years ended January 1, 2000, January 2, 1999 and January 3, 1998

(Millions of Dollars)	1999	1998	1997
Operating Activities:			
Net earnings (loss)	**$ 150.0**	$ 137.8	$ (41.9)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	**85.6**	79.7	72.4
Provision for bad debts	**31.3**	16.1	16.5
Restructuring and asset write-offs	**(21.3)**	–	238.5
Other non-cash items	**26.4**	16.4	(34.4)
Changes in operating assets and liabilities:			
Accounts and notes receivable	**(66.9)**	(41.7)	(38.7)
Inventories	**(12.5)**	(78.0)	8.6
Accounts payable and accrued expenses	**18.1**	(61.8)	(.7)
Income taxes	**19.8**	(5.4)	21.8
Other	**(8.2)**	(6.9)	(.9)
Net cash provided by operating activities	**222.3**	56.2	241.2
Investing Activities:			
Capital expenditures	**(77.9)**	(56.9)	(73.3)
Capitalized software	**(25.0)**	(7.8)	(10.8)
Proceeds from sales of assets	**35.1**	9.8	11.2
Proceeds from sales of businesses	**–**	3.0	34.8
Business acquisitions	**–**	(99.9)	(58.4)
Investment in affiliated company	**–**	–	(23.1)
Other	**(.1)**	.7	(5.8)
Net cash used by investing activities	**(67.9)**	(151.1)	(125.4)
Financing Activities:			
Payments on long-term debt	**(156.7)**	(40.0)	(7.4)
Proceeds from long-term borrowings	**121.3**	60.9	2.8
Net short-term financing	**(61.1)**	126.7	75.3
Proceeds from swap terminations	**13.9**	–	–
Proceeds from issuance of common stock	**10.0**	21.9	40.5
Purchase of common stock for treasury	**(21.4)**	(42.0)	(83.0)
Cash dividends on common stock	**(77.5)**	(73.9)	(68.6)
Net cash provided (used) by financing activities	**(171.5)**	53.6	(40.4)
Effect of exchange rate changes on cash	**(5.0)**	(.8)	(7.2)
Increase (decrease) in cash and cash equivalents	**(22.1)**	(42.1)	68.2
Cash and cash equivalents, beginning of year	**110.1**	152.2	84.0
Cash and cash equivalents, end of year	**$ 88.0**	$ 110.1	$ 152.2

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY

Fiscal years ended January 1, 2000, January 2, 1999 and January 3, 1998

(Millions of Dollars, except per share amounts)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	ESOP Debt	Treasury Stock	Shareowners' Equity
Balance December 28, 1996	$ 230.9	$ 919.0	$ (45.5)	$ (234.8)	$ (89.5)	$ 780.1
Comprehensive income (loss):						
Net loss		(41.9)				
Currency translation adjustment			(39.8)			
Total comprehensive income (loss)						(81.7)
Cash dividends declared-$.77 per share		(68.6)				(68.6)
Issuance of common stock		(13.4)			61.1	47.7
Purchase of common stock					(92.2)	(92.2)
Tax benefit related to stock options		8.7				8.7
ESOP debt				11.0		11.0
ESOP tax benefit		2.8				2.8
Balance January 3, 1998	230.9	806.6	(85.3)	(223.8)	(120.6)	607.8
Comprehensive income (loss):						
Net earnings		137.8				
Currency translation adjustment			2.1			
Minimum pension liability			(1.4)			
Total comprehensive income (loss)						138.5
Cash dividends declared-$.83 per share		(73.9)				(73.9)
Issuance of common stock		(8.5)			33.8	25.3
Purchase of common stock					(44.1)	(44.1)
Tax benefit related to stock options		2.4				2.4
ESOP debt				10.6		10.6
ESOP tax benefit		2.8				2.8
Balance January 2, 1999	230.9	867.2	(84.6)	(213.2)	(130.9)	669.4
Comprehensive income (loss):						
Net earnings		150.0				
Currency translation adjustment			(15.6)			
Minimum pension liability			1.0			
Total comprehensive income (loss)						135.4
Cash dividends declared-$.87 per share		(77.5)				(77.5)
Issuance of common stock		(16.3)			29.4	13.1
Purchase of common stock					(19.5)	(19.5)
Tax benefit related to stock options		.8				.8
ESOP debt				11.0		11.0
ESOP tax benefit		2.7				2.7
Balance January 1, 2000	**$ 230.9**	**$ 926.9**	**$ (99.2)**	**$ (202.2)**	**$ (121.0)**	**$ 735.4**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries which require consolidation, after the elimination of intercompany accounts and transactions. The company's fiscal year ends on the Saturday nearest to December 31. There were 52 weeks in fiscal years 1999 and 1998 and 53 weeks in 1997.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as certain financial statement disclosures. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from these estimates.

Foreign Currency Translation

For most foreign operations, asset and liability accounts are translated at current exchange rates; income and expenses are translated using weighted average exchange rates. Resulting translation adjustments, as well as gains and losses from certain intercompany transactions, are reported in a separate component of shareowners' equity. Translation adjustments for operations in highly inflationary economies and exchange gains and losses on transactions are included in earnings, and amounted to net losses for 1999, 1998 and 1997 of $4.8 million, $.9 million and $.4 million, respectively.

Cash Equivalents

Highly liquid investments with original maturities of three months or less are considered cash equivalents.

Inventories

U.S. inventories are valued at the lower of last-in, first-out (LIFO) cost or market. Other inventories are valued generally at the lower of first-in, first-out (FIFO) cost or market.

Long-Lived Assets

Property, plant and equipment are stated on the basis of historical cost less accumulated depreciation. Depreciation is provided using a combination of accelerated and straight-line methods over the estimated useful lives of the assets.

Goodwill is amortized on a straight-line basis over periods not exceeding forty years. The company periodically evaluates the existence of goodwill impairment on the basis of whether amounts recorded are recoverable from projected undiscounted cash flows of related businesses. Impairment losses are valued by comparing the carrying value of the goodwill to its fair value, generally determined by the discounted cash flow method.

Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Impairment losses were charged to operations in 1999 and 1997 and were included in Restructuring and asset write-offs on the statement of operations.

Financial Instruments

To manage interest rate exposure, the company enters into interest rate swap agreements. The net interest paid or received on the swaps is recognized as interest expense. Gains resulting from the early termination of interest rate swap agreements are deferred and amortized as adjustments to interest expense over the remaining period originally covered by the terminated swap. The company manages exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of forward exchange contracts or currency options. The company enters into forward exchange contracts to hedge intercompany loans and enters into purchased foreign currency options to hedge anticipated transactions. Gains and losses on forward exchange contracts are deferred and recognized as part of the underlying transactions. Changes in the fair value of options, representing a basket of foreign currencies purchased to hedge anticipated cross-currency cash flows, are included in cost of sales. The company does not use financial instruments for trading or speculative purposes.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting For Derivative Instruments and Hedging Activities," which is effective in fiscal year 2001. The adoption of this standard is not expected to have a material impact on the company's balance sheet, operating results or cash flows.

Revenue Recognition

Revenue is recognized when the earning process is complete and the risks and rewards of ownership have transferred to the customer, which is generally considered to have occurred upon shipment of the finished product.

Income Taxes

Income tax expense is based on reported earnings (loss) before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes, and are measured by applying enacted tax rates in effect in years in which the differences are expected to reverse.

Earnings per Share

Basic earnings per share equals net earnings divided by weighted average shares outstanding during the year. Diluted earnings per share includes the impact of common stock equivalents using the treasury stock method when the effect is dilutive.

Stock-Based Compensation

The company accounts for its employee stock compensation plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost is recognized for stock-based compensation unless the quoted market price of the stock at the grant date is in excess of the amount the employee must pay to acquire the stock. Pro forma disclosures of net earnings and earnings per share, as if the fair value based method of accounting had been applied, are presented in Note J.

Reclassifications

Certain prior years amounts have been reclassified to conform with the current year presentation.

B. ACQUISITIONS

In August 1998, the company acquired ZAG Industries Ltd. (ZAG), an innovator and producer of plastic storage products, for $129.3 million. The purchase price included a cash payment of $114.4 million, contingent payments based on ZAG's estimated earnings over a five year period and acquisition related costs. The purchase price was allocated to the fair market value of the assets acquired and liabilities assumed and resulted in goodwill of $94.3 million, which is being amortized over a 40 year period.

In November 1997, the company acquired the assets of Atro Industriale, a manufacturer and distributor of pneumatic fastening tools, collated nails, and staples for $46.3 million.

The aforementioned acquisitions were accounted for as purchase transactions and, accordingly, the operating results have been included in the company's consolidated financial statements since the dates of acquisition. The acquisitions did not have a material pro forma impact on operations.

C. ACCOUNTS AND NOTES RECEIVABLE

Trade receivables are dispersed among a large number of retailers, distributors and industrial accounts in many countries. Adequate provisions have been established to cover anticipated credit losses. At January 1, 2000 and January 2, 1999, allowances for doubtful receivables of $43.4 million and $26.7 million, respectively, were applied as a reduction of current accounts and notes receivable. The company believes it has no significant concentrations of credit risk as of January 1, 2000.

The company sells certain accounts receivable under revolving sales agreements. The proceeds from these sales were $93.6 million in 1999, $68.8 million in 1998 and $61.9 million in 1997.

D. INVENTORIES

(Millions of Dollars)	1999	1998
Finished products	$ 269.0	$ 273.3
Work in process	48.3	52.5
Raw materials	63.9	55.1
	$ 381.2	$ 380.9

Inventories in the amount of $231.6 million at January 1, 2000 and $218.6 million at January 2, 1999 were valued at the lower of LIFO cost or market. If LIFO inventories had been valued at FIFO costs, they would have been $114.4 million and $113.9 million higher than reported at January 1, 2000 and January 2, 1999, respectively.

E. PROPERTY, PLANT AND EQUIPMENT

(Millions of Dollars)	1999	1998
Land	$ 27.2	$ 36.5
Buildings	218.3	229.0
Machinery and equipment	886.0	873.3
Computer software	76.5	59.7
	1,208.0	1,198.5
Less: accumulated depreciation and amortization	687.4	687.1
	$ 520.6	$ 511.4

The provisions for depreciation and amortization for 1999, 1998 and 1997 were $75.6 million, $71.4 million and $65.2 million, respectively.

F. GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles at the end of each fiscal year, net of accumulated amortization of $86.0 million and $80.2 million, were as follows:

(Millions of Dollars)	1999	1998
Goodwill	$ 168.2	$ 177.0
Other	17.0	19.9
	$ 185.2	$ 196.9

G. ACCRUED EXPENSES

(Millions of Dollars)	1999	1998
Payroll and related taxes	$ 53.1	$ 53.5
Insurance	32.2	30.6
Restructuring	46.7	90.3
Income taxes	45.7	26.3
Other	133.3	107.3
	$ 311.0	$ 308.0

H. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

(Millions of Dollars)		1999	1998
Notes payable in 2002	7.4%	$ 100.0	$ 100.0
Notes payable in 2004	5.8%	120.0	–
Commercial paper		–	150.0
Notes payable due semiannually to 2005	6.3%	27.5	31.3
Industrial Revenue Bonds due in varying amounts to 2010	5.8-6.8%	19.6	19.6
ESOP loan guarantees, payable in varying monthly installments through 2009	6.1%	33.6	39.6
Other		1.0	18.5
		301.7	359.0
Less: current maturities		11.7	14.2
		$ 290.0	$ 344.8

On February 24, 1999, the company issued $120.0 million of five year debt at a coupon rate of 5.75%. The proceeds were used to refinance commercial paper, classified as non-current at January 2, 1999.

The company has unused short and long-term credit arrangements with several banks to borrow up to $400.0 million at the lower of prime or money market rates. Of this amount, $150.0 million is long-term. Commitment fees range from .06% to .07%. In addition, the company has short-term lines of credit with numerous foreign banks aggregating $105.9 million, of which $105.6 million was available at January 1, 2000. Short-term arrangements are reviewed annually for renewal. Of the long-term and short-term lines, $400.0 million is available to support the company's commercial paper program. The weighted average interest rates on short-term borrowings at January 1, 2000 and January 2, 1999 were 5.1% and 5.4%, respectively.

To manage interest costs and foreign exchange risk, the company maintains a portfolio of interest rate swap agreements. The portfolio includes currency swaps maturing in 2004 that convert $90.5 million of fixed rate United States dollar debt into fixed rate Euro debt (4.4% weighted average rate). The company also has a currency swap that converts $32.0 million of variable rate United States dollar debt to variable rate Euro debt (3.5% weighted average rate). See Note I for more information regarding the company's interest rate and currency swap agreements.

Aggregate annual maturities of long-term debt for the years 2001 to 2004 are $11.6 million, $125.6 million, $12.7 million and $120.4 million, respectively. Interest paid during 1999, 1998 and 1997 amounted to $30.8 million, $31.2 million and $22.7 million, respectively.

Commercial paper, utilized to support working capital requirements, was $145.2 million and $148.5 million, as of January 1, 2000 and January 2, 1999, respectively.

I. FINANCIAL INSTRUMENTS

The company's objectives in using debt related financial instruments are to obtain the lowest cost source of funds within an acceptable range of variable to fixed rate debt proportions and to minimize the foreign exchange risk of obligations. To meet these objectives the company enters into interest rate swap and currency swap agreements. A summary of instruments and weighted average interest rates follows. The weighted average variable pay and receive rates are based on rates in effect at the balance sheet dates. Variable rates are generally based on LIBOR or commercial paper rates with no leverage features.

(Millions of Dollars)	1999	1998
Interest rate swaps		
Receive variable-pay fixed rates	**$ –**	$ 167.8
pay rate	**–**	5.1%
receive rate	**–**	5.2%
maturity dates	**–**	1999-2003
Currency swaps	**$112.8**	$ 106.8
pay rate	**4.1%**	4.9%
receive rate	**5.8%**	5.7%
maturity dates	**2004**	1999-2005

The company uses purchased currency options to reduce exchange risks arising from cross-border cash flows expected to occur over the next one year period. In addition, the company enters into forward exchange contracts to hedge intercompany loans. The objective of these practices is to minimize the impact of foreign currency fluctuations on operating results. At January 1, 2000 and January 2, 1999, the company had forward contracts hedging intercompany loans totaling $8.8 million and $15.6 million, respectively. At January 1, 2000 and January 2, 1999, currency options hedged anticipated transactions totaling $200.1 million and $158.8 million, respectively. The forward contracts and options are primarily denominated in Canadian dollars, Australian dollars, Taiwanese dollars, Thai Baht and major European currencies and generally mature within the next one year period.

The counterparties to these interest rate and currency financial instruments are major international financial institutions.

The company is exposed to credit risk for net exchanges under these agreements, but not for the notional amounts. The company considers the risk of default to be remote.

A summary of the carrying values and fair values of the company's financial instruments at January 1, 2000 and January 2, 1999 is as follows:

(Millions of Dollars)	1999		1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	**$ 311.2**	**$ 297.9**	$ 356.2	$ 351.6
Currency and interest rate swaps	**(9.5)**	**(8.2)**	2.8	2.9
	$ 301.7	**$ 289.7**	$ 359.0	$ 354.5

Generally, the carrying value of the debt related financial instruments is included in the balance sheet in long-term debt. The fair values of long-term debt are estimated using discounted cash flow analyses, based on the company's marginal borrowing rates. The fair values of foreign currency and interest rate swap agreements are based on current settlement values. The carrying amount of cash equivalents and short-term borrowings approximates fair value.

J. CAPITAL STOCK

Earnings per Share Computation

The following table reconciles the weighted average shares outstanding used to calculate basic and diluted earnings per share.

(Millions of dollars, except per share amounts)	1999	1998	1997
Net earnings (loss)- basic and diluted	**$ 150.0**	$ 137.8	$ (41.9)
Basic earnings per share- weighted average shares	**89,626,424**	89,407,980	89,469,849
Dilutive effect of employee stock options	**260,177**	785,342	–
Diluted earnings per share- weighted average shares	**89,886,601**	90,193,322	89,469,849
Earnings (loss) per share:			
Basic	**$ 1.67**	$ 1.54	$ (.47)
Diluted	**$ 1.67**	$ 1.53	$ (.47)

The effect of employee stock options for 1997 was 1,002,456 shares. These shares are not included in the calculations since they are antidilutive.

Common Stock Share Activity

The activity in common shares for each year, net of treasury stock, was as follows:

	1999	1998	1997
Outstanding, beginning of year	**88,771,928**	88,788,081	88,719,792
Issued	**1,139,671**	977,865	2,239,606
Purchased	**(966,424)**	(994,018)	(2,171,317)
Outstanding, end of year	**88,945,175**	88,771,928	88,788,081

Common Stock Reserved

At January 1, 2000 and January 2, 1999, the number of shares of common stock reserved for future issuance under various employee and director stock plans was as follows:

	1999	1998
Employee Stock Purchase Plan	**4,171,306**	4,298,753
Stock Option Plans	**6,817,346**	7,175,538
Long-term incentive plans	**6,718,596**	6,765,342
	17,707,248	18,239,633

Preferred Stock Purchase Rights

Each outstanding share of common stock has one half of a share purchase right. Each purchase right may be exercised to purchase one two-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of $220.00, subject to adjustment. The rights, which do not have voting rights, expire on March 10, 2006, and may be redeemed by the company at a price of $.01 per right at any time prior to the 10th day following the public announcement that a person has acquired beneficial ownership of 10% or more of the outstanding shares of common stock.

In the event that the company is acquired in a merger or other business combination transaction, provision shall be made so that each holder of a right (other than a holder who is a 10%-or-more shareowner) shall have the right to receive, upon exercise thereof, that number of shares of common stock of the surviving company having a market value equal to two times the exercise price of the right. Similarly, if anyone becomes the beneficial owner of more than 10% of the then outstanding shares of common stock (except pursuant to an offer for all outstanding shares of common stock which the independent directors have deemed to be fair and in the best interest of the company), provision will be made so that each holder of a right (other than a holder who is a 10%-or-more shareowner) shall thereafter have the right to receive, upon exercise thereof, common stock (or, in certain circumstances, cash, property or other securities of the company) having a market value equal to two times the exercise price of the right. At January 1, 2000, there were 44,472,588 outstanding rights. There are 250,000 shares of Series A Junior Participating Preferred Stock reserved for issuance in connection with the rights.

Stock Options and Awards

The company has a stock option plan and a Long-Term Incentive Plan (LTIP) for key executives. Each provides for the grant of stock options. The LTIP also provides for the grant of restricted stock and other awards. The company also has a stock option plan that provides for option grants to outside directors of the company. Options are granted at the market price of the company's stock on the date of grant and have a maximum term of 10 years.

In December 1996, the company recruited a new Chairman and Chief Executive Officer pursuant to a three year employment agreement and granted him 200,000 common stock equivalent share units and an option to purchase 1,000,000 shares at $27.562 (the market value on the date of issuance). Each share unit had a market value of $27.75 on the date of the grant and represents the right to receive one share of common stock. The share units will be distributed in three equal annual installments beginning in 2000. The option grant, which was approved by shareowners on April 23, 1997, has a ten year term. Fiscal year 1997 includes a charge to operations representing the difference between the exercise price and the fair market value as of the shareowner approval date. (See Note L.)

Information regarding the company's stock option plans is summarized below:

	1999		1998		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	**4,824,891**	**$ 29.56**	4,244,013	$ 28.49	3,784,738	$ 21.68
Granted	**2,158,350**	**27.12**	1,358,467	29.10	1,966,000	35.34
Exercised	**(341,263)**	**21.58**	(498,339)	21.55	(1,365,235)	20.13
Forfeited	**(228,400)**	**37.15**	(279,250)	43.20	(141,490)	22.21
Outstanding, end of year	**6,413,578**	**$ 28.89**	4,824,891	$ 29.56	4,244,013	$ 28.49
Options exercisable, end of year	**3,608,261**	**$ 29.06**	3,627,424	$ 29.02	3,285,513	$ 24.13

Options outstanding as of January 1, 2000 had exercise prices as follows: 2,340,511 options ranging from $15.06 to $24.97, 3,137,617 options ranging from $25.31 to $32.81 and 935,450 options ranging from $38.25 to $55.98. The weighted average remaining contractual life of these options is 8.0 years.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan enables substantially all employees in the United States, Canada and Belgium to subscribe at any time to purchase shares of common stock on a monthly basis at the lower of 85% of the fair market value of the shares on the first day of the plan year ($24.20 per share for fiscal year 1999 purchases) or 85% of the fair market value of the shares on the last business day of each month. A maximum of 6,000,000 shares are authorized for subscription. During 1999, 1998 and 1997 shares totaling 127,447, 367,498 and 734,037, respectively, were issued under the plan at average prices of $22.85, $35.16 and $23.69 per share, respectively.

Long-Term Stock Incentive Plan

The Long-Term Stock Incentive Plan provides for the granting of awards to senior management employees for achieving company performance measures over five year cycles. The Plan is administered by the Compensation and Organization Committee of the Board of Directors consisting of non-employee directors. Awards are payable in shares of common stock as directed by the Committee. No expense was incurred in 1999. The amounts of $1.6 million and $3.5 million were charged to expense in 1998 and 1997, respectively. Shares totaling 46,746, 67,993 and 61,731 were issued in 1999, 1998 and 1997, respectively. The Compensation and Organization Committee determined in 1994 not to make any further awards under this plan. Accordingly, there will be no further awards under this plan subsequent to the 1994-1998 award cycle.

Stock Compensation Plans

The company accounts for stock option grants under its two stock-based compensation plans and stock purchases under the Employee Stock Purchase Plan in accordance with APB No. 25. Accordingly, no compensation cost has been recognized for the majority of stock option grants since the options have exercise prices equal to the market value of the company's common stock at the date of grant. If compensation cost for the company's stock-based compensation plans had been determined based on the fair value at the grant dates consistent with the method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation", the company's net earnings (loss) and earnings (loss) per share would have been adjusted to the pro forma amounts indicated below:

	1999	1998	1997
Pro forma net earnings (loss) (in millions)	**$ 141.4**	$ 128.9	$ (56.1)
Pro forma earnings (loss) per share:			
Basic	**$ 1.58**	$ 1.44	$ (.63)
Diluted	**$ 1.57**	$ 1.43	$ (.63)

Pro forma compensation cost relating to the stock options is recognized over the six month vesting period, while Employee Stock Purchase Plan compensation cost is recognized on the first day of the plan year. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1999, 1998 and 1997, respectively: dividend yield of 3.5%, 3.1% and 1.8% expected volatility of 40% for 1999, 35% for 1998 and 25% for 1997; risk-free interest rates of 7.0%, 5.4% and 6.0%; and expected lives of 7 years. The weighted average fair value of stock options granted in 1999, 1998 and 1997 was $9.92, $10.90 and $15.39, respectively. The fair value of the employees' purchase rights under the Employee Stock Purchase Plan was estimated using the following assumptions for 1999, 1998 and 1997, respectively: dividend yield of 3.5%, 3.1% and 1.8%; expected volatility of 40% for 1999, 35% for 1998 and 25% for 1997; risk-free interest rates of 6.4%, 4.8% and 6.0%; and expected lives of 1.2 years. The weighted average fair value of those purchase rights granted in 1999, 1998 and 1997 was $10.09, $7.21 and $8.53, respectively.

K. EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan (ESOP)

The Account Value Plan provides opportunities for tax-deferred savings, enabling eligible U.S. employees to acquire a proprietary interest in the company. Such employees may contribute from 1% to 15% of their salary to the plan. The company contributes an amount equal to one-half of the first 7% of employee contributions, all of which is invested in the company's common stock. The amounts in 1999, 1998 and 1997 under this matching arrangement were $7.1 million, $7.9 million and $8.2 million, respectively. In 1998, the investment options for plan participant contributions were enhanced to include a variety of investment funds in addition to the company's common stock.

In 1998, the ESOP was expanded to include an additional non-contributory benefit for U.S. salaried and non-union hourly employees to replace the pre-existing defined benefit plan. Under the new benefit arrangement, the company contributes amounts ranging from 2% to 9% of employee compensation based on age, ($13.9 million in 1999 and $9.5 million in 1998). Assets of the new benefit are invested in equity securities and bonds.

Shares of the company's common stock held by the ESOP were purchased with the proceeds of external borrowings in 1989 and borrowings from the company in 1991, both of which were refinanced in 1998. The external ESOP borrowings are guaranteed by the company and are included in long-term debt. Shareowners' equity reflects both the internal and the external borrowing arrangements.

Shares are released to participant accounts based on principal and interest payments of the underlying debt. These shares along with allocated dividends and shares purchased on the open market are assigned to fund share requirements of the employee contributions, employer contributions and the dividends earned on participant account balances.

Net ESOP activity recognized is based on total debt service and share purchase requirements less employee contributions and dividends on ESOP shares. The company's net ESOP activity resulted in expense of $10.7 million in 1999, and income of $5.1 million and $15.2 million in 1998 and 1997, respectively.

Dividends on ESOP shares, which are charged to shareowners' equity as declared, were $14.7 million in 1999 and $15.2 million in 1998 and 1997. Interest costs incurred by the ESOP on external debt for 1999, 1998 and 1997, were $2.2 million, $2.9 million and $4.0 million, respectively. ESOP shares not yet allocated to participants are treated as outstanding for purposes of computing earnings per share. As of January 1, 2000, the number of ESOP shares allocated to participant accounts was 11,047,336 and the number of unallocated shares was 8,651,054.

Pension And Other Benefit Plans

The company sponsors non-contributory pension plans covering substantially all employees. Benefits for salaried and non-union hourly employees are generally based on salary and years of service, while those for collective bargaining employees are based on a stated amount for each year of service. In 1998, the company replaced the defined benefit plan for U.S. salaried and non-union hourly employees with a defined contribution plan, which was incorporated into the ESOP. The new plan was actuarially designed to replace the benefits of the pre-existing defined benefit plan. Additional service benefits under the pre-existing plan were frozen as of January 31, 1998, resulting in a net $3.1 million curtailment loss. Contributions under the new plan began in February 1998.

The company's funding policy for its defined benefit plans is to contribute amounts determined annually on an actuarial basis to provide for current and future benefits in accordance with federal law and other regulations. Plan assets are invested in equity securities, bonds, real estate and money market instruments. If the plans are terminated or merged with another plan within three years following a change in control of the company, any excess plan assets are to be applied to increase the benefits of all participants.

The components of net periodic pension cost are as follows:

(Millions of Dollars)	1999	1998	1997
Service cost	**$ 8.4**	$ 11.1	$ 22.5
Interest cost	**29.4**	31.6	31.2
Expected return on plan assets	**(45.8)**	(43.4)	(37.2)
Amortization of transition asset	**(.7)**	(1.2)	(1.7)
Amortization of prior service cost	**1.1**	1.4	1.5
Other	**1.7**	2.0	2.7
Curtailment loss	**(.5)**	3.1	5.7
Net periodic pension cost (income)	**$ (6.4)**	$ 4.6	$ 24.7

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $22.1 million, $16.6 million and $2.0 million as of January 1, 2000, and $31.9 million, $22.0 million and $6.8 million, respectively as of January 2, 1999.

The company provides medical and dental benefits for certain retired employees in the United States. In addition, domestic employees who retire from active service are eligible for life insurance benefits. Net periodic postretirement benefit expense was $2.3 million in 1999 and $1.9 million in 1998 and 1997.

The funded status of the company's pension and other benefit plans at the end of each fiscal year was as follows:

(Millions of Dollars)	1999	1998	1999	1998
	Pension Benefits		Other Benefits	
Change in benefit obligation				
Benefit obligation at end of prior year	**$ 512.6**	$ 464.8	**$ 17.4**	$ 17.5
Service cost	**8.4**	11.1	**1.1**	0.6
Interest cost	**29.4**	31.6	**1.1**	1.2
Actuarial (gains) losses	**(72.6)**	38.8	**(1.6)**	(4.1)
Plan amendments	**1.5**	–	**–**	–
Foreign currency exchange rates	**(1.0)**	(0.8)	**–**	–
Benefits paid	**(52.0)**	(32.9)	**(1.7)**	2.2
Benefit obligation at end of year	**426.3**	512.6	**16.3**	17.4
Change in plan assets				
Fair value of plan assets at end of prior year	**534.1**	525.6	**–**	–
Actual return on plan assets	**98.3**	35.1	**–**	–
Foreign currency exchange rate changes	**(1.1)**	1.3	**–**	–
Employer contribution	**3.9**	5.0	**–**	–
Benefits paid	**(52.0)**	(32.9)	**–**	–
Fair value of plan assets at end of year	**583.2**	534.1	**–**	–
Funded status-assets in excess (less than) benefit obligation	**156.9**	21.5	**(16.3)**	(17.4)
Unrecognized prior service cost	**10.1**	9.7	**.2**	–
Unrecognized net actuarial (gain) loss	**(141.7)**	(15.5)	**.3**	2.2
Unrecognized net asset at transition	**(2.7)**	(3.5)	**–**	–
Net amount recognized	**$ 22.6**	$ 12.2	**$ (15.8)**	$ (15.2)
Amounts recognized in the consolidated balance sheet				
Prepaid benefit cost	**$ 37.4**	$ 31.4	**$ –**	$ –
Accrued benefit liability	**(16.6)**	(21.8)	**(15.8)**	(15.2)
Intangible asset	**1.4**	1.2		–
Accumulated other comprehensive income	**.4**	1.4	**–**	–
Net amount recognized	**$ 22.6**	$ 12.2	**$ (15.8)**	$ (15.2)

Assumptions used for significant pension benefit plans were as follows:

	1999	1998
Discount rate	**7.5%**	6.5%
Average wage increase	**4.0%**	4.5%
Expected return on plan assets	**10.0%**	10.0%

Changing the discount rate used for measuring the benefit obligation resulted in an actuarial gain of approximately $73 million in 1999 and an actuarial loss of approximately $40 million in 1998, included in the change in benefit obligation.

The weighted average annual assumed rate of increase in the per-capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 8.2% for 1999 reducing gradually to 6% by 2010 and remaining at that level thereafter. A one percentage point increase in the assumed health care cost trend rate would have increased the accumulated benefit obligation by $1.0 million at January 1, 2000 and net periodic postretirement benefit expense for fiscal year 1999 by $.1 million. A one percentage point decrease in the assumed health care cost trend rate would have an immaterial effect on the accumulated postretirement benefit obligation and net periodic postretirement benefit cost for fiscal 1999. A weighted average discount rate of 7.5% and 6.5% was used in measuring the accumulated benefit obligations for 1999 and 1998, respectively.

L. OTHER COSTS AND EXPENSES

Interest-net for 1999, 1998 and 1997 included interest income of $5.4 million, $7.9 million and $8.1 million, respectively.

Other-net in1999 includes a gain on the termination of a cross-currency financial instrument of $11.4 million ($.08 per share). Other-net in 1997 includes a non-cash charge of $10.6 million ($.07 per share), representing the difference between the exercise price and the fair market value of a 1,000,000 share option grant under terms of the company's employment contract with its chief executive officer. (See Note J.)

Advertising costs are expensed as incurred and amounted to $50.2 million in 1999, $46.2 million in 1998 and $48.2 million in 1997. Marketing costs for 1999, 1998 and 1997 amounted to $59.7 million, $61.4 million and $25.0 million, respectively.

M. RESTRUCTURING AND ASSET WRITE-OFFS

In the fourth quarter of 1999, the company completed an evaluation of remaining reserves established in 1997 for restructuring initiatives designed to streamline its manufacturing, sales, distribution and administration operations. The company has determined that certain actions contemplated at the time of the original restructuring will not occur. Accordingly, the company recorded one-time special credits to income of $61.8 million, reversing excess reserves remaining from 1997. It is expected that some residual costs will continue to be incurred throughout 2000. Reserves of $17.8 million have been set aside for this purpose, consisting of $12.2 million for severance, $4.1 million for other exit costs and $1.5 million for the write-down of impaired assets.

As of January 1, 2000, 50 manufacturing and distribution facilities have been closed. In 1999, 1998 and 1997, approximately 2,300, 2,100 and 900 employees have been terminated as a result of restructuring initiatives, respectively. Severance payments of $44.4 million, $26.1 million and $9.2 million and other exit payments of $17.0 million, $6.2 million and $5.0 million were made in 1999, 1998 and 1997, respectively. Write-offs of impaired assets were $13.2 million and $19.7 million in 1999 and 1998, respectively.

In the fourth quarter of 1999, plans were approved for new restructuring initiatives designed to achieve productivity gains. These include the closing of eight facilities and the related relocation of production, reductions in administrative and sales force personnel, outsourcing of non-core activities and related asset impairments. These actions are expected to require severance benefits for approximately 1,900 people. The cost of these initiatives is expected to be $40.5 million, of which $31.7 million relates to severance and other exit costs and $8.8 million is for the write-down of impaired assets.

At January 1, 2000 and January 2, 1999, reserve balances for restructuring were $58.3 million and $154.3 million, of which $10.3 million and $44.0 million relate to the write-down of impaired assets, respectively.

N. BUSINESS SEGMENT AND GEOGRAPHIC AREA

Business Segment and Geographic Area information included on page 36 of this report is an integral part of the financial statements.

O. INCOME TAXES

Significant components of the Company's deferred tax liabilities and assets as of the end of each fiscal year were as follows:

(Millions of Dollars)	1999	1998
Deferred tax liabilities:		
Depreciation	**$ 70.6**	$ 71.7
Other	**7.6**	5.5
Total deferred tax liabilities	**78.2**	77.2
Deferred tax assets:		
Employee benefit plans	**36.2**	36.6
Doubtful accounts	**15.7**	14.0
Inventories	**6.5**	7.6
Amortization of intangibles	**18.7**	17.1
Accruals	**13.6**	16.7
Restructuring charges	**30.3**	62.0
Other	**13.0**	9.9
	134.0	163.9
Valuation allowance	**(15.2)**	(9.1)
Total deferred tax assets	**118.8**	154.8
Net deferred tax assets	**$ 40.6**	$ 77.6

Valuation allowances reduced the deferred tax asset attributable to foreign and state loss carryforwards to the amount that, based upon all available evidence, is more likely than not to be realized. Reversal of the valuation allowance is contingent upon the recognition of future taxable income and capital gains in specific foreign countries and specific states, or changes in circumstances which cause the recognition of the benefits to become more likely than not.

Income tax expense consisted of the following:

(Millions of Dollars)	1999	1998	1997
Current:			
Federal	**$ 25.3**	$ 55.5	$ 48.5
Foreign	**13.7**	13.9	28.7
State	**5.6**	7.6	8.8
Total current	**44.6**	77.0	86.0
Deferred (benefit):			
Federal	**32.1**	(.9)	(36.9)
Foreign	**.8**	1.4	(21.6)
State	**3.3**	.1	(4.2)
Total deferred (benefit)	**36.2**	.6	(62.7)
Total	**$ 80.8**	$ 77.6	$ 23.3

Income taxes paid during 1999, 1998 and 1997 were $22.4 million, $71.0 million and $69.1 million, respectively.

The reconciliation of the federal income tax at the statutory federal rate to the income tax at the effective rate was as follows:

(Millions of Dollars)	1999	1998	1997
Tax at statutory rate	**$ 80.8**	$ 75.4	$ (6.5)
State income taxes, net of federal benefits	**5.8**	5.0	3.8
Difference between foreign and federal income tax	**(4.5)**	(.4)	1.9
Restructuring reserves	**–**	–	24.3
Other-net	**(1.3)**	(2.4)	(.2)
Income taxes	**$ 80.8**	$ 77.6	$ 23.3

The components of earnings (loss) before income taxes consisted of the following:

(Millions of Dollars)	1999	1998	1997
United States	**$ 201.0**	$ 148.6	$ 11.1
Foreign	**29.8**	66.8	(29.7)
Total pretax earnings (loss)	**$ 230.8**	$ 215.4	$ (18.6)

Undistributed foreign earnings of $154.2 million at January 1, 2000 are considered to be invested indefinitely or will be remitted substantially free of additional tax. Accordingly, no provision has been made for taxes that might be payable upon remittance of such earnings, nor is it practicable to determine the amount of this liability.

P. COMMITMENTS

The company leases certain facilities, vehicles, machinery and equipment under long-term operating leases with varying terms and expiration dates.

Future minimum lease payments under noncancelable operating leases, in millions of dollars, as of January 1, 2000 were $20.2 in 2000, $15.5 in 2001, $10.4 in 2002, $6.9 in 2003, $5.0 in 2004 and $24.2 thereafter. Minimum payments have not been reduced by minimum sublease rentals of $8.9 million due in the future under noncancelable subleases. Rental expense for operating leases amounted to $42.7 million in 1999, $45.1 million in 1998 and $34.9 million in 1997.

The company has entered into certain outsourcing arrangements, principally related to information systems, telecommunications and freight, which expire at various dates through 2009. The future estimated minimum payments under these commitments, in millions of dollars, as of January 1, 2000 were $30.2 in 2000, $29.8 in 2001, $28.1 in 2002, $20.0 in 2003, $18.7 in 2004, and $74.8 thereafter.

Q. CONTINGENCIES

In the normal course of business, the company is involved in various lawsuits and claims. In addition, the company is a party to a number of proceedings before federal and state regulatory agencies relating to environmental remediation. Also, the company, along with many other companies, has been named as a potentially responsible party (PRP) in a number of administrative proceedings for the remediation of various waste sites, including 11 Superfund sites. Current laws potentially impose joint and several liability upon each PRP. In assessing its potential liability at these sites, the company has considered the following: the solvency of the other PRPs, whether responsibility is being disputed, the terms of existing agreements, experience at similar sites, and the fact that the company's volumetric contribution at these sites is relatively small.

The company's policy is to accrue environmental investigatory and remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The amount of liability recorded is based on an evaluation of currently available facts with respect to each individual site and includes such factors as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. The liabilities recorded do not take into account any claims for recoveries from insurance or third parties. As assessments and remediation progress at individual sites, the amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. As of January 1, 2000, the company had reserves of $18.3 million, primarily for remediation activities associated with company-owned properties as well as for Superfund sites.

The amount recorded for identified contingent liabilities is based on estimates. Amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. Actual costs to be incurred in future periods may vary from the estimates, given the inherent uncertainties in evaluating certain exposures. Subject to the imprecision in estimating future contingent liability costs, the company does not expect that any sum it may have to pay in connection with these matters in excess of the amounts recorded will have a materially adverse effect on its financial position, results of operations or liquidity.

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(Millions of Dollars, except per share amounts)

	Quarter				Year
1999	**First**	**Second**	**Third**	**Fourth**	
Net sales	**$ 683.7**	**$ 685.5**	**$ 692.0**	**$ 690.6**	**$2,751.8**
Gross profit	**232.3**	**230.4**	**245.1**	**230.1**	**937.9**
Selling, general and administrative expenses	**173.1**	**182.2**	**166.9**	**180.8**	**703.0**
Restructuring and asset write-offs	**–**	**–**	**–**	**(21.3)**	**(21.3)**
Net earnings	**$ 30.3**	**$ 25.3**	**$ 50.3**	**$ 44.1**	**$ 150.0**
Net earnings per share:					
Basic	**$ .34**	**$ .28**	**$ .56**	**$ .49**	**$ 1.67**
Diluted	**$ .34**	**$ .28**	**$ .56**	**$ .49**	**$ 1.67**
1998					
Net sales	$ 671.9	$ 691.8	$ 689.6	$ 675.8	$2,729.1
Gross profit	236.9	242.9	236.4	220.1	936.3
Selling, general and administrative expenses	171.1	166.1	172.7	174.8	684.7
Net earnings	$ 36.4	$ 42.2	$ 33.4	$ 25.8	$ 137.8
Net earnings per share:					
Basic	$ .41	$ .47	$ .37	$ .29	$ 1.54
Diluted	$ .40	$ .47	$ .37	$ .29	$ 1.53

Note: The third quarter of 1999 includes a gain realized upon the termination of a cross-currency financial instrument of $11.4 million, or $.08 per share. The fourth quarter of 1999 includes a mechanics tools' special charge of $20.1 million, or $.14 share.

CORPORATE INFORMATION

BOARD OF DIRECTORS



John M. Trani [1]
Chairman and
Chief Executive Officer
The Stanley Works



Stillman B. Brown [1, 4, 5]
Managing General Partner
Harcott Associates Investments



Edgar R. Fiedler [2, 4]
Retired; former Vice President
and Economic Counselor
The Conference Board



Mannie L. Jackson [4, 5]
Chairman
Harlem Globetrotters International,
a division of MJA, Inc.



James G. Kaiser [2, 3]
Chairman, Avenir Partners automotive
retailing; former President and Chief
Executive Officer Quanterra Incorporated,
a subsidiary of Corning Incorporated
and International Technology, Inc.



Eileen S. Kraus [1, 4, 5]
Chairman, Connecticut
Fleet National Bank



Hugo E. Uyterhoeven [3, 5]
Professor emeritus, Graduate School
of Business Administration
Harvard University



Walter W. Williams [2, 3, 5]
Retired; former Chairman and
Chief Executive Officer
Rubbermaid, Incorporated



Kathryn D. Wriston [1, 2, 3]
Director of various organizations

1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Board Affairs and Public Policy Committee
4 Member of the Finance and Pension Committee
5 Member of the Compensation and Organization Committee

CORPORATE OFFICERS

William D. Hill
Vice President, Engineering & Technology
(1997)

Stef G. H. Kranendijk
President, Europe
(1998)

Kenneth O. Lewis
Vice President, Marketing & Brand Development
(1997)

James M. Loree
Vice President, Finance & Chief Financial Officer
(1999)

Mark J. Mathieu
Vice President, Human Resources
(1997)

Donald R. McIlnay
President, Consumer Sales Americas
(1999)

Ronald L. Newcomb
Vice President, Operations
(1999)

Paul W. Russo
Vice President, Strategy & Development
(1995)

John M. Trani
Chairman & Chief Executive Officer
(1997)

Stephen S. Weddle
Vice President, General Counsel & Secretary
(1978)

Theresa F. Yerkes
Vice President & Controller
(1989)

(Joined Stanley)



On February 11, 2000 Stanley management rang the opening bell for trading at the NYSE. Pictured left to right, Richard Grasso, NYSE Chairman, John Trani, Chairman & CEO, James Loree, CFO, William Johnston, NYSE President and Ronald Newcomb, Vice President – Operations.

INVESTOR AND SHAREOWNER INFORMATION

Common Stock

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

Common Stock (Dollars per Share)

	Price				Dividends	
	1999		1998		1999	1998
	High	Low	High	Low		
First Quarter	28 3/4	23 1/4	56 1/16	42 1/4	$ .215	$ .20
Second Quarter	35	25 3/4	57 1/4	40 1/2	.215	.20
Third Quarter	32 5/16	24 3/16	47 3/4	27 1/8	.22	.215
Fourth Quarter	33 5/8	22	32 9/16	23 1/2	.22	.215
					$ .87	$ .83

Dividends

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

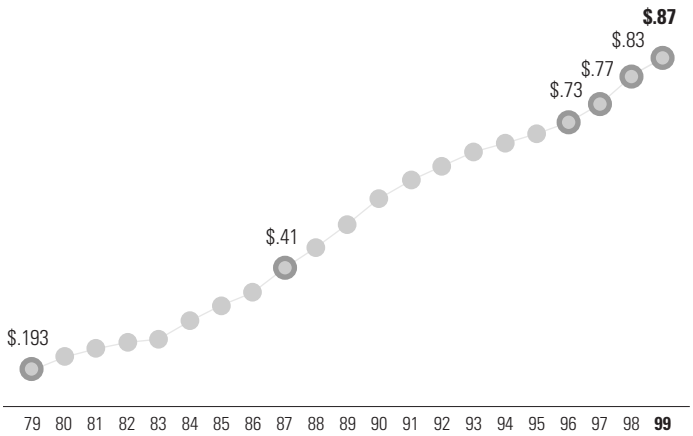
> Our record of annual dividend payments is unmatched by any industrial company listed on the New York Stock Exchange – **123 consecutive years**.

> Our quarterly dividend record is the longest of any industrial company listed on the New York Stock Exchange – **419 consecutive quarters**.

> We have increased dividends in each of the past **32 years**, and in that same period, an investment in Stanley stock grew at a compound annual rate of 13.1%.

> **Increased dividends every year since 1968**

Dividend per share in Dollars **$.87 per share**



Transfer Agent and Registrar

All shareowner inquiries, including transfer-related matters, should be directed to:
EquiServe Limited Partnership, Servicing Agent for State Street Bank and Trust Company P.O. Box 8200, Boston, MA 02266-8200 - (800) 543-6757.
http://www.equiserve.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 shareowners' meeting of The Stanley Works will be held at 9:30 a.m. on Wednesday, April 19, 2000, in New Britain, Connecticut at the New Britain High School, 110 Mill Street, in the school auditorium. 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 & 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, Form 10-Q, Form 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 Gerard J. Gould, Director, Investor Relations at (860) 827-3833. We make quarterly news 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 following address on the World Wide Web: http://www.stanleyworks.com. Stanley shareowners are also able to call toll-free (800) 499-9202 to request a copy of the most recent quarterly release.

Dividend Reinvestment Plan and direct stock purchase

Shareowners may 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:
EquiServe Limited Partnership, Servicing Agent for State Street Bank and Trust Company P.O. Box 8200, Boston, MA 02266-8200 - (800) 543-6757.
http://www.equiserve.com

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