2010 was an extraordinary year for our Company, highlighted by the closing of the merger of Stanley Works and Black & Decker on March 12. Undoubtedly the most significant transaction in both companies’ histories, the formation of this enterprise creates the undisputed tool industry leader with global scale, strong growth prospects and prodigious cash flow. Our Company, with its growing market capitalization and cash flow, combined with attractive growth platforms and business building capabilities, is continuing its journey to become a diversified industrial leader.

Financial results were solid in 2010, in spite of a weak economic underpinning in the developed countries. Total revenues were up 125% to $8.4 billion. Earnings grew 176%, while free cash flow increased $489 to $935 million, powered by benefits from the merger integration and the Stanley Fulfillment System (SFS).

Our strong results are a manifestation of our Company’s commitment to driving shareholder value through a strategy aligned with our long-term financial objectives as described below:

- 4–6% organic revenue growth; 10–12% total revenue growth
- Mid-teens EPS growth
- Free cash flow greater than or equal to net income
- Return on capital employed (ROCE) between 12% and 15%
- Continued dividend growth
- Strong investment grade credit rating

These objectives have been intact since 2004, with the exception of our revenue growth targets, which were increased from a previous range of 3–5% organic and 8–10% total growth following the merger, due to our continued footprint expansion into emerging markets and our higher free cash flow base which, in part, will fuel the expansion of our growth platforms. Since these objectives were established, total average annual revenue growth has been 25%. In the four years preceding the recent recession, our average organic revenue growth was 5% and, as a combined Company in 2010, our organic growth rate was 5%. Net income has grown at a 9% compounded annual rate, slightly below our long-term target but strong nonetheless considering the near-trough stage in the cycle in which we operated during 2010. ROCE has averaged 13% during this seven-year period.

At the same time, free cash flow has averaged 133% of net income and has grown at a 10% CAGR. Our dividend has been increased every year without interruption and our credit ratings continue to be in strong investment grade territory. We are pleased with our performance versus these goals and are confident that we will see meaningful improvements in our net income CAGR in 2011 and 2012. We are also pleased with our stock performance which, as of December 31, 2010, had outperformed the S&P 500 Index on each of a one-year, three-year, five-year and ten-year basis. In fact, while the S&P 500 experienced no price appreciation at all during the last decade, our stock more than doubled, while paying a steady and growing dividend.

Stanley Black & Decker: The Story

The thesis behind this landmark merger is compelling: to take two strong companies, combine them, and create an even stronger global enterprise, positioned for success in...
the years and decades to come. The merger created the global leader in hand and power tools with a stable of iconic brands, world-class innovation processes, outstanding channel access, enormous global reach, including into high growth emerging markets, significant scale efficiencies and benefits from the Stanley Fulfillment System. At the time of the announcement, cost synergies were believed to be $350 million over three years which, when capitalized, represented an extraordinary 36% of the combined companies’ market capitalization. The transaction was also expected to be highly accretive to earnings per share of the new Company with an incremental $1.00 per share expected by year three. The stocks of both companies performed well, with legacy Black & Decker and legacy Stanley Works up 31% and 10%, respectively, in the first ten days after the announcement. Stanley Black & Decker’s price movement was in the top decile of all equity performances experienced in U.S. stock, for stock transactions over $500 million announced during the last decade.

We are keenly aware that this overwhelmingly positive reaction was both an endorsement of the strategic and financial logic of the merger, as well as a vote of confidence that the integration would be successful and the announced targets would be met or exceeded over time. We take this responsibility very seriously and have established the organization, operating mechanisms and governance processes to ensure success.

The integration got off to an excellent start and continues to be firmly on track. We exceeded our original calendar year 2010 announced cost synergy commitment by $45 million, bringing the total amount realized for that period up to $135 million. Further, we recently upgraded our total cost synergy commitment from $350 million to $425 million and reduced the expected time to fully realize these synergies from 36 to 33 months. We also recently announced that free cash flow, which was originally expected to total $1 billion by year three, was likely to be $1.1 billion in the first full year of the merger. As a result of this financial outperformance, we were able to announce a 21% dividend increase in February 2011, signaling our high level of confidence in the Company’s future trajectory of earnings and cash flow growth.

We also recently provided a first look at the quantification of revenue synergies, with the expected revenue benefit totaling between $300 and $400 million in addition to our normal organic growth initiatives over the intermediate term. These synergies result from a myriad of opportunities around the globe arising from the merger, including but not limited to brand expansion and leveraging complementary geographic and channel strengths.

Our experience thus far with melding the two companies’ cultures together has been positive. The similarities are far greater than the differences, especially in the areas of growth, brand expansion, end user focus and product innovation. This is highly positive because it enables our management teams to galvanize around attributes that are most critical to serving our customers effectively, which some would say is the most energizing aspect of running a business.

The first chapter in the story of Stanley Black & Decker has been a great one and we expect that this is just the beginning of a long and fulfilling journey to create exceptional shareholder value.

Other 2010 Highlights

In a significant step in the establishment of our Infrastructure Solutions growth platform, we acquired CRC-Evans Pipeline International (CRC-Evans), a leading global supplier of specialized tools, equipment and services for the construction of oil and natural gas transmission pipelines. With 2010 revenues of approximately $250 million, nearly 60% of which were derived from emerging markets, CRC-Evans is a scalable, global growth vehicle.

We expanded our $915 million Convergent Security Solutions electronic security business with the acquisition of ADT’s French operations (2009 revenues approximately $175 million), which we rebranded Stanley Solutions de Sécurité, growing our market share of the $1 billion French commercial security monitoring business to approximately 25%.

We took an important strategic step forward in evolving our Healthcare growth platform with the acquisition of InfoLogix (revenues approximately $55 million), a leading provider of mobile workstations and productivity solutions to hospitals. InfoLogix offers acute care providers with custom-designed process improvements to reduce their costs, improve safety levels and assist in compliance with growing regulatory requirements.

(1) Excludes merger and acquisition-related charges/payments. Refer to 2010 Scorecard.
“The first chapter in the story of Stanley Black & Decker has been a great one and we expect that this is just the beginning of a long and fulfilling journey to create exceptional shareholder value.”

We also announced a majority-owned joint venture with Shanghai-based GMT hardware Enterprise Corp. (GMT), a leading manufacturer and distributor of commercial hardware in China with 2009 revenues of $40 million. This strategic partnership provides us with instant access to one of the best commercial hardware brands in China, as well as a strong and well-developed local distribution network.

Where Do We Go From Here?

The strategy remains the same. We will continue to strengthen our core franchises through strong brand support, robust product and business model innovation and the relentless implementation of SFS. We will continue to pursue consolidating acquisitions in tools when the economic and strategic rationales are strong; however, the bulk of our acquisition capital in coming years will be directed towards expanding our high margin growth platforms in Security and Engineered Fastening and continuing to build upon early successes in Healthcare and Infrastructure. Significant emphasis will be placed on growth in the emerging markets, both organically and through acquisition.

We view one of our most important roles as being stewards of capital. Since 2004, we have been pursuing a strategy of reinvesting two-thirds of our free cash flow into accretive acquisitions and returning the other third to shareholders in the form of dividends and share repurchases. We reinvested 52% and returned 48% to shareholders during this period while still achieving our growth objectives. Our intent is to reinvest enough cash to fund above-average growth while returning enough cash to be responsive to investors. The goal is to create an attractive hybrid value proposition: a growth company that returns a large percentage of cash to its shareholders. This approach does not appeal to everyone inasmuch as we don’t fit into a neat box; however, it has resulted in above-average returns for investors and we are quite comfortable with it. It does require an intense focus on operating returns and cash flow, which we have achieved through management rigor and process improvement, especially as it relates to SFS.

Stanley Fulfillment System

SFS has evolved over the past decade and really began to gain traction across the Company in 2007. At that time, our working capital turns were 4.5. Through the implementation of SFS principles over the succeeding three years, including operational lean, complexity reduction, sales and operations planning, global supply management and order-to-cash excellence, we were able to improve overall turns for legacy Stanley to 8.6 in 2010.

This was achieved during a time of general economic weakness and volume contraction. The process excellence required for this type of performance resulted in significant customer service level and cycle time improvements for our customers. Hundreds of millions of dollars of cash were freed up for capital allocation and our balance sheet strength was maintained in the face of very difficult economic conditions.

As we go forward, SFS represents one of the biggest opportunities to create additional value from the Stanley Black & Decker merger, with the potential to unlock over half a billion dollars if we are able to return to the 8 turns level within three to four years, which we believe is feasible.

Summary

2010 was a year of successes for Stanley Black & Decker with the closing of the merger, a strong start to the integration, solid financial results and strategic progress across the Company. We are proud of our accomplishments but remain firmly grounded within three to four years, which we believe is feasible.

New Britain, CT
February 18, 2011

John F. Lundgren
President & Chief Executive Officer

James M. Loree
Executive Vice President & Chief Operating Officer

Stanley Black & Decker
A Solutions Company 2010 Year in Review