STANLEY WORKS
Form 11-K
July 01, 2002

FORM 11-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

(X)Annual Report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2001

or

( ) Transition Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 1-5224

The Stanley Account Value Plan

(Full title of the plan)

The Stanley Works
1000 Stanley Drive
New Britain, Connecticut 06053

(Name of issuer of the securities held pursuant to the plan and the address of its principal executive offices

The Stanley Account Value Plan

Audited Financial Statements
and Supplemental Schedules

Years ended December 31, 2001 and 2000

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Report of Independent Auditors

Pension Committee of The Board of Directors
The Stanley Works

We have audited the accompanying statements of net assets available for benefits of The Stanley Account Value Plan as of December 31, 2001 and 2000, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan'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 net assets available for benefits of the Plan at December 31, 2001 and 2000, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of assets (held at end of year) as of December 31, 2001, and reportable transactions for the year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Hartford, Connecticut
June 25, 2002

The Stanley Account Value Plan

Statement of Net Assets Available for Benefits

December 31, 2001

	STANLEY STOCK FUND	LOAN FUND	CORNERSTONE FUND	UNALLOCA STANLEY S FUND
ASSETS				
Investments, at current market value:				
The Stanley Works Common Stock:				
89,761 shares (cost $1,448,234)			$4,180,170	
6,017,356 shares (cost $166,704,171)	$280,228,269			
7,637,039 shares (cost $133,113,081)				$355,656,
Short-term investments	2,122,068		1,776,109	34,
Mutual Funds			23,954,928	
	282,350,337		29,911,207	355,691,
Cash	3,297,266	119,734	(6,643)	
Contributions receivable			5,716,603	
Dividends and interest receivable	2,918		575,098	
Debt issuance costs, net of				

accumulated amortization of $330,327				2,501,
Loans to participants		6,839,274		
	$285,650,521	$6,959,008	$36,196,265	$358,192,
LIABILITIES				
Liabilities:				
Debt				$187,736,
Accounts payable			$525,589	
			525,589	187,736,
Net assets available for benefits	$285,650,521	$6,959,008	35,670,676	170,455,
	$285,650,521	$6,959,008	$36,196,265	$358,192,

See accompanying notes.

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The Stanley Account Value Plan

Statement of Net Assets Available for Benefits

December 31, 2000

	STANLEY STOCK FUND	LOAN FUND	CORNERSTONE FUND	UNALLOCA STANLEY S FUND
ASSETS				
Investments, at current market value:				
The Stanley Works Common Stock:				
68,402 shares (cost $1,096,439)			$ 2,133,322	
7,236,426 shares (cost $151,677,907)	$225,689,654			
8,129,686 shares (cost $141,026,106)				$253,548,2
Short-term investments	1,831,359		1,863,331	5,4
Mutual Funds			18,607,094	
	227,521,013		22,603,747	253,553,7
Cash	1,224,843	$ 82,780		
Contributions receivable			13,557,664	
Dividends and interest receivable	7,888		540,184	1,0
Debt issuance costs, net of accumulated amortization of $235,948				2,595,4
Loans to participants		8,000,490		

	$228,753,744	$8,083,270	$36,701,595	$256,150,2
LIABILITIES				
Liabilities:				
Debt				$194,836,2
Accounts payable			$ 506,635	
			506,635	194,836,2
Net assets available for benefits	$228,753,744	$8,083,270	$36,194,960	61,314,0
	$228,753,744	$8,083,270	$36,701,595	$256,150,2

See accompanying notes.

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The Stanley Account Value Plan

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2001

	STANLEY STOCK FUND	LOAN FUND	CORNER
ADDITIONS			
Investment income:			
Dividends	$ 6,166,824		$
Interest	79,873		
	6,246,697		
Net appreciation (depreciation)	96,574,945		
Employee contributions	6,891,338		
Employer contribution	3,254,644		1
DEDUCTIONS			
Withdrawals	(74,360,737)		
Administrative expenses	(107,686)		
Amortization expense			
Interest expense			
Interfund transfers - net	18,397,576	$ (1,124,262)	(1
Net increase (decrease)	56,896,777	(1,124,262)	
Net assets available for benefits at beginning of			

year	228,753,744	8,083,270	3
Net assets available for benefits at end of year	$ 285,650,521	$ 6,959,008	$ 3

	MUTUAL FUNDS	TOTAL
ADDITIONS		
Investment income:		
Dividends	$ 350,991	$ 13,980,507
Interest	417	148,073
	351,408	14,128,580
Net appreciation (depreciation)	(1,271,534)	210,999,538
Employee contributions	7,757,378	14,648,716
Employer contribution		13,823,178
DEDUCTIONS		
Withdrawals		(74,360,737)
Administrative expenses	(61,345)	(243,499)
Amortization expense		(94,379)
Interest expense		(11,662,059)
Interfund transfers - net	(3,926,555)	
Net increase (decrease)	2,849,352	167,239,338
Net assets available for benefits at beginning of year	16,956,363	351,302,379
Net assets available for benefits at end of year	$ 19,805,715	$ 518,541,717

See accompanying notes.

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The Stanley Account Value Plan

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2000

	STANLEY STOCK FUND	LOAN FUND	CORNER
ADDITIONS			
Investment income:			
Dividends	$ 5,040,212		$
Interest	102,864	$ 28,889	
	5,143,076	28,889	
Net realized and unrealized appreciation (depreciation)	4,896,909		(
Employee contributions	9,124,783		
Employer contribution	4,633,497		2
DEDUCTIONS			
Withdrawals	(42,538,567)		
Administrative expenses	(248,437)	(74)	
Amortization expense			
Interest expense			
Interfund transfers - net	8,684,765	(1,677,290)	(
Net increase (decrease)	(10,303,974)	(1,648,475)	1
Net assets available for benefits at beginning of year	239,057,718	9,731,745	2
Net assets available for benefits at end of year	$ 228,753,744	$ 8,083,270	$ 3

	MUTUAL FUNDS	TOTAL
ADDITIONS		
Investment income:		
Dividends	$ 197,942	$ 14,485,851
Interest	302,106	510,992
	500,048	14,996,843
Net realized and unrealized appreciation (depreciation)	(1,482,965)	1,501,742
Employee contributions	8,424,265	17,549,048
Employer contribution		25,358,081
DEDUCTIONS		
Withdrawals		(42,538,567)
Administrative expenses	(52,542)	(395,017)
Amortization expense		(94,379)
Interest expense		(12,103,340)
Interfund transfers - net	(1,651,343)	-

Net increase (decrease)	5,737,463	4,274,411
Net assets available for benefits at beginning of year	11,218,900	347,027,968
Net assets available for benefits at end of year	$ 16,956,363	$ 351,302,379

See accompanying notes.

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The Stanley Account Value Plan

Notes to Financial Statements

December 31, 2001

1. DESCRIPTION OF THE PLAN

The Stanley Account Value Plan (the "Plan"), which operates as a leveraged employee stock ownership plan, is designed to comply with the Internal Revenue Code of 1986, as amended, and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended. The Plan is a defined contribution plan for eligible United States salaried and hourly paid employees of The Stanley Works (the "Company").

Each year, participants may contribute, through pre-tax payroll deductions up to 15% of their compensation, as defined in the Plan Agreement. Such contributions are matched by the Company in an amount equal to 50% of the participant's contribution up to a maximum matching contribution of 3 1/2% of the participant's compensation.

Prior to 1998, participant and Company contributions were invested in the Stanley Stock Fund. In 1998, the investment options for plan participant contributions were enhanced to include four investment funds in addition to the Company's common stock. Participants may invest in one fund, divide the account value among the funds or choose one of three pre-mixed blended investment options. Participant and Company contributions, prior to July 1, 1998, invested in the Stanley Stock Fund are guaranteed, if necessary, by the Retirement Plan for Salaried Employees of The Stanley Works or by the Pension Plan for Hourly Paid Employees of The Stanley Works, providing that the investment return on such stock acquired with employee contributions will not be less than an investment return based on two-year U.S. Treasury notes. For employee contributions and related Company match, the following investment funds are offered:

STANLEY STOCK FUND--Consists of common stock of The Stanley Works. This stock is traded on the New York and Pacific Stock Exchanges under the symbol SWK.

MUTUAL FUNDS

PYRAMID EQUITY INDEX FUND--Seeks long-term growth, subject to the short-term fluctuations characteristic of the stock market. The fund invests in most of

the Standard & Poors 500 (S&P 500), as well as other investments whose value is based on S&P 500 stocks.

INVESCO RETIREMENT TRUST STABLE VALUE FUND--Seeks liquidity and safety of principal, while providing a higher return than is typically offered by money market funds. The fund invests in a diversified portfolio of investment contracts with insurance companies, banks and other financial institutions.

1. DESCRIPTION OF THE PLAN (CONTINUED)

AMERICAN FUNDS EUROPACIFIC GROWTH FUND--Seeks long-term growth, subject to the risks involved in investing outside of the United States, such as currency fluctuations, political instability, differing securities regulations and periods of liquidity.

FIDELITY SMALL CAP INDEPENDENCE FUND--Seeks long-term growth, subject to the short-term fluctuations characteristic of the small stock market. The fund invests in securities of small capitalization companies in various industries.

CORNERSTONE FUND

In 1998, the Plan was amended to provide an additional non-contributory benefit for U.S. salaried and non-union hourly employees ("Cornerstone Fund"). Under this benefit arrangement, the Company contributes amounts ranging from 2% to 9% of employee compensation based on age. Assets of this benefit feature are invested in Stanley stock, mutual funds and other short-term investments.

Employees are fully vested as to amounts in their savings accounts attributable to their own contributions and earnings thereon and amounts transferred from the other qualified plans on their behalf. All participants are vested in 100% of the value of the Company matching contributions made on their behalf after five years of service, with no vesting in the matching contributions during the first through fifth years of service.

Benefits generally are distributed upon termination of employment. Normally, a lump-sum distribution is made in cash or shares of the Company's Common Stock (hereinafter referred to as Common Stock, Stanley Stock, or shares), at the election of the participant, from the Stanley Stock Fund.

During active employment, subject to financial hardship rules, participants may withdraw, in cash only, all or a portion of vested amounts in their accounts.

Notes to Financial Statements (continued)

1. DESCRIPTION OF THE PLAN (CONTINUED)

LOAN FUND

Participants may borrow from their savings account up to an aggregate amount equal to the lesser of $50,000 or 50% of the value of their vested interest in such accounts with a minimum loan of $1,000. The $50,000 loan amount limitation is reduced by the participant's highest outstanding loan balance during the 12 months preceding the date the loan is made. Each loan is evidenced by a negotiable promissory note bearing a rate of interest equal to the prime rate as reported in The Wall Street Journal on the first business day of the month in which the loan request is processed, which is payable, through payroll deductions, over a term of not more than five years. Participants are allowed ten years to repay the loan if the proceeds are used to purchase a principal residence. Only one loan per participant may be outstanding at any time.

If a loan is outstanding at the time a distribution becomes payable to a participant (or beneficiary), the distribution is made net of the loan outstanding, and the distribution shall fully discharge the Plan with respect to the participant's account value attributable to the outstanding loan balance.

UNALLOCATED STANLEY STOCK FUND

The Plan borrowed $95,000,000 in 1989 from a group of financial institutions and $180,000,000 in 1991 from the Company (see Notes 3 and 4) to acquire 5,868,088 and 9,696,968 shares, respectively, of Common Stock from the Company's treasury and previously unissued shares. The shares purchased from the proceeds of the loans were placed in the Unallocated Stanley Stock Fund (the "Unallocated Fund"). Under the 1989 loan agreement, the Company guaranteed the loan and is obligated to make annual contributions sufficient to enable the Plan to repay the loan plus interest.

The Unallocated Fund makes monthly transfers of shares, in accordance with the Plan provisions, to the Stanley Stock Fund in return for proceeds equivalent to the average fair market value of the shares for the month subsequent to the last transfer. These proceeds, along with dividends received on allocated and unallocated shares and additional employee and Company contributions, if necessary, are used to make monthly payments of principal and interest on the debt. If dividends on the allocated shares are applied to the payment of debt service, a number of shares having a fair market value at least equal to the amount of the dividends so applied are allocated to the savings accounts of participants who would otherwise have received cash dividends. The excess of unallocated dividends over the amount necessary for principal and interest along with forfeitures of nonvested employee accounts are used to reduce future Company matching contributions.

1. DESCRIPTION OF THE PLAN (CONTINUED)

The fair market value of shares released from the Unallocated Fund pursuant to loan repayments made during any year may exceed the total of employee contributions and Company matching contributions for that year. If that occurs, all participants who made contributions at any time during that year and who are employed by the Company on the last day of that year receive, on a pro rata basis, such excess value as an additional allocation of Stanley Stock for that year.

Each participant is entitled to exercise voting rights attributable to the shares allocated to their account. The Trustee is not permitted to vote participant shares for which instructions have not been given by the participant. Shares in the Unallocated Fund are voted by the Trustee in the same proportion as allocated shares.

The Company reserves the right to terminate the Plan at any time, subject to its provisions. Upon such termination of the Plan, the interest of each participant in the trust fund will become vested and be distributed to such participant or his or her beneficiary at the time prescribed by the Savings Plan terms and the Internal Revenue Code.

The Plan sponsor has engaged Hewitt Associates, to maintain separate accounts for each participant. Such accounts are credited with each participant's contributions, the allocated portion of the Company's matching contributions, related gains, losses and dividend income, and loan activity.

At December 31, 2001 and 2000, benefits payable to terminated vested participants amounted to $3,360,480 and $1,201,101, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS

The Plan investments consist primarily of shares of Stanley Stock. Stanley Stock is traded on a national exchange and is valued at the last reported sales price on the last business day of the plan year. Mutual funds are stated at fair value which equals the quoted market price on the last business day of the plan year. Short-term investments consist of short-term bank-administered trust funds which earn interest daily at rates approximating U.S. Government securities; cost approximates market value.

The assets of the Plan are held in trust by an independent corporate trustee, Citibank, N. A. (the "Trustee") pursuant to the terms of a written Trust Agreement between the Trustee and the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that can affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

DIVIDEND INCOME

Dividend income is accrued on the ex-dividend date.

GAINS OR LOSSES ON SALES OF INVESTMENTS

Gains or losses realized on the sales of investments are determined based on average cost.

EXPENSES

Administrative expenses not paid by the Company are paid by the Plan.

3. DEBT

Debt consisted of the following at December 31:

	2001	2000
Notes payable in monthly installments to 2009 with interest at 6.07%	$ 22,510,763	$ 27,9
Notes payable to the Company in monthly installments to 2028 with interest at 6.09%	165,225,837	166,9
	$ 187,736,600	$ 194,8

During 1998, notes payable to financial institutions were refinanced, resulting in a reduction in the interest rate, extension of the maturity and a prepayment penalty of $2,831,378, which is being amortized over the remaining term of the debt. Concurrently, notes payable to the Company were restructured, resulting in a reduction in the interest rate and extension of the maturity. Additionally, the Plan borrowed funds from the Company to pay the prepayment penalty.

3. DEBT (CONTINUED)

The scheduled maturities of debt for the next five years are as follows:

2002--$6,900,000; 2003--$7,000,000; 2004--$6,900,000; 2005--$7,150,999; and 2006--$8,400,000.

The notes payable to the Company are secured by shares held in the Unallocated Stock Fund. The number of shares held as security is reduced as shares are released to Stanley Stock Fund pursuant to principal and interest payments. During the year, 256,845 shares were released and at December 31, 2001, 7,120,955 shares are pledged as security.

Payment of the Plan's debt has been guaranteed by the Company. Should the principal and interest due exceed the dividends paid on shares in the Stanley Stock and Unallocated Stock Funds, and employee and Company matching contributions, the Company is responsible for funding such shortfall.

4. TRANSACTIONS WITH PARTIES-IN-INTEREST

Fees paid during 2001 and 2000 for management and other services rendered by parties-in-interest were based on customary and reasonable rates for such services. The majority of such fees were paid by the Plan. Fees incurred and paid by the Plan during 2001 and 2000 were $243,499 and $395,017, respectively.

In 1991, the Plan borrowed $180,000,000 from the Company, the proceeds of which were used to purchase 9,696,968 shares of stock for the Plan. In 1998, the Plan borrowed $2.8 million from the Company, the proceeds of which were used to pay a prepayment penalty incurred in connection with debt refinancing. The Plan made $10,119,808 and $11,921,749 of principal and interest payments related to such debt in 2001 and 2000, respectively. At December 31, 2001, $165,225,837 was outstanding on such debt.

5. INCOME TAX STATUS

The Internal Revenue Service has ruled that the Plan and the trust qualify under Sections 401(a) and 401(k) of the Internal Revenue Code (IRC) and are therefore not subject to tax under present income tax law. Once qualified, the Plan is required to operate in accordance with the IRC to maintain its qualification. The Pension Committee is not aware of any course of action or series of events that have occurred that might adversely affect the Plan's qualified status.

The Stanley Account Value Plan

Schedule H, Line 4(i)--Schedule of Assets (Held At End of Year)

EIN-06-0548860

December 31, 2001

IDENTITY OF ISSUE, BORROWER, OR SIMILAR PARTY	DESCRIPTION OF INVESTMENT, INCLUDING MATURITY DATE, RATE OF INTEREST, PAR OR MATURITY VALUE	COST
Common Stock:		

The Stanley Works*	13,744,156 shares of Common Stock; par value $2.50 per share	$ 301,265,486
Citibank, N.A.*	Short-Term Investment Fund- Pooled Bank Fund	3,941,751
Mutual Funds:		
BT S&P Index Fund	Pyramid Equity Index Fund	9,019,256
Invesco Retirement Trust Stable Value Fund	Invesco Retirement Trust	4,848,499
American Funds Euro Pacific Growth Fund	Euro Pacific Growth Fund	3,818,003
Fidelity Small Cap Independence Fund	Fidelity Select Small Capitalization Pool	3,467,811
BT Pyramid Russell 3000 Fund	Russell 300 Fund	19,408,418
BT Pyramid Broad Market Fixed Income Fund	Fixed Income Fund	5,785,893
Total investments		351,555,117
Loans to participants	Promissory notes at prime rate with maturities of five years or ten years	6,839,274
Total		$ 358,394,391

*Indicates party-in-interest to the Plan.

The Stanley Account Value Plan

Schedule H, 4(j)--Schedule of Reportable Transactions

EIN 06-0548860

Year ended December 31, 2001

IDENTITY OF PARTY INVOLVED	PURCHASE DESCRIPTION OF ASSETS	SELLING PRICE	COST OF ASSET	CURRENT VALU ASSET ON TRANSACTION

Category (iii) - Series of transactions in excess of 5 percent of plan assets

Citibank, N.A.*	Short-Term Investment Fund- United States Government Securities		$ 13,130,429	$ 13,130,
Citibank, N.A.*	Short-Term Investment Fund- United States Government Securities	$ 47,437,680	26,741,825	47,437,

There were no category (i), (ii) or (iv) reportable transactions during 2001.

* Indicates party-in-interest to the Plan.

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Stanley Account Value Plan has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

The Stanley Works
Account Value Plan

Date: July 1, 2002

By: /s/ Mark Mathieu

Vice President, Human Resources

Exhibit 23

Consent of Independent Auditors

We consent to the incorporation by reference in the following registration statements pertaining to The Stanley Works Account Value Plan of our report dated June 25, 2002, with respect to the financial statements and schedules of The Stanley Works Account Value Plan for the year ended December 31, 2001 included in this Annual Report (Form 11-K) for the year ended December 31, 2001.

- Registration Statement (Form S-8 No. 2-97283)
- Registration Statement (Form S-8 No. 33-41612)
- Registration Statement (Form S-8 No. 33-55663)

Hartford, Connecticut
June 26, 2002

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