

SNAP-ON Inc
Form 10-Q
October 18, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark one)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 29, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 1-7724

(Exact name of registrant as specified in its charter)

Delaware

39-0622040

(State of incorporation)

(I.R.S. Employer Identification No.)

2801 80th Street, Kenosha, Wisconsin

53143

(Address of principal executive offices)

(Zip code)

(262) 656-5200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Edgar Filing: SNAP-ON Inc - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at October 12, 2012
Common Stock, \$1.00 par value	58,231,199 shares

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I: Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Earnings (unaudited) Three and Nine Months Ended September 29, 2012, and October 1, 2011</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income (unaudited) Three and Nine Months Ended September 29, 2012, and October 1, 2011</u>	4
<u>Condensed Consolidated Balance Sheets (unaudited) September 29, 2012, and December 31, 2011</u>	5-6
<u>Condensed Consolidated Statements of Equity (unaudited) Nine Months Ended September 29, 2012, and October 1, 2011</u>	7
<u>Condensed Consolidated Statements of Cash Flow (unaudited) Nine Months Ended September 29, 2012, and October 1, 2011</u>	8
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	9-31
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32-57
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	58-59
Item 4. <u>Controls and Procedures</u>	59
<u>Part II: Other Information</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	60
Item 6. <u>Exhibits</u>	61
<u>Signatures</u>	62
<u>Exhibit Index</u>	63

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1: Financial Statements****SNAP-ON INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS****(Amounts in millions, except per share data)****(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales	\$ 711.6	\$ 697.2	\$ 2,184.7	\$ 2,117.6
Cost of goods sold	(371.2)	(367.9)	(1,146.7)	(1,115.5)
Gross profit	340.4	329.3	1,038.0	1,002.1
Operating expenses	(244.2)	(235.0)	(739.7)	(721.7)
Operating earnings before financial services	96.2	94.3	298.3	280.4
Financial services revenue	40.5	32.7	118.4	88.8
Financial services expenses	(12.6)	(11.9)	(41.0)	(38.0)
Operating earnings from financial services before arbitration settlement	27.9	20.8	77.4	50.8
Arbitration settlement				18.0
Operating earnings from financial services	27.9	20.8	77.4	68.8
Operating earnings	124.1	115.1	375.7	349.2
Interest expense	(13.6)	(15.1)	(41.4)	(47.7)
Other income (expense) net	(0.2)	(1.7)	(0.5)	
Earnings before income taxes and equity earnings	110.3	98.3	333.8	301.5
Income tax expense	(34.9)	(30.5)	(108.4)	(97.5)
Earnings before equity earnings	75.4	67.8	225.4	204.0
Equity earnings, net of tax	1.0	2.0	2.5	3.7
Net earnings	76.4	69.8	227.9	207.7
Net earnings attributable to noncontrolling interests	(2.3)	(2.0)	(6.4)	(5.7)
Net earnings attributable to Snap-on Incorporated	\$ 74.1	\$ 67.8	\$ 221.5	\$ 202.0
Net earnings per share attributable to Snap-on Incorporated:				
Basic	\$ 1.27	\$ 1.16	\$ 3.81	\$ 3.47
Diluted	1.26	1.16	3.77	3.44

Edgar Filing: SNAP-ON Inc - Form 10-Q

Weighted-average shares outstanding:

Basic	58.3	58.2	58.2	58.2
Effect of dilutive options	0.6	0.5	0.6	0.5
Diluted	58.9	58.7	58.8	58.7

Dividends declared per common share	\$ 0.34	\$ 0.32	\$ 1.02	\$ 0.96
-------------------------------------	---------	---------	---------	---------

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Comprehensive income (loss):				
Net earnings	\$ 76.4	\$ 69.8	\$ 227.9	\$ 207.7
Other comprehensive income (loss):				
Foreign currency translation	43.3	(60.8)	20.3	18.1
Cash flow hedges reclassified to income	(0.1)	(0.1)	(0.3)	(0.3)
Change in pension and postretirement plans*	6.6		23.6	
Total comprehensive income	\$ 126.2	\$ 8.9	\$ 271.5	\$ 225.5
Comprehensive income attributable to noncontrolling interests	(2.3)	(2.0)	(6.4)	(5.7)
Comprehensive income attributable to Snap-on Incorporated	\$ 123.9	\$ 6.9	\$ 265.1	\$ 219.8

* Net of tax of \$4.0 million and \$13.3 million for the respective three and nine month periods ended September 29, 2012.
See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SNAP-ON INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	September 29, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 176.1	\$ 185.6
Trade and other accounts receivable net	476.9	463.5
Finance receivables net	314.4	277.2
Contract receivables net	62.4	49.7
Inventories net	417.5	386.4
Deferred income tax assets	91.3	92.6
Prepaid expenses and other assets	85.3	75.7
Total current assets	1,623.9	1,530.7
Property and equipment		
Land	19.8	19.8
Buildings and improvements	280.3	274.9
Machinery, equipment and computer software	678.1	632.3
	978.2	927.0
Accumulated depreciation and amortization	(604.9)	(574.1)
Property and equipment net	373.3	352.9
Deferred income tax assets	120.5	125.2
Long-term finance receivables net	481.9	431.8
Long-term contract receivables net	192.4	165.1
Goodwill	799.9	795.8
Other intangibles net	187.5	188.3
Other assets	92.5	83.1
Total assets	\$ 3,871.9	\$ 3,672.9

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SNAP-ON INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	September 29, 2012	December 31, 2011
LIABILITIES AND EQUITY		
Current liabilities		
Notes payable and current maturities of long-term debt	\$ 18.7	\$ 16.2
Accounts payable	146.9	124.6
Accrued benefits	47.9	48.8
Accrued compensation	83.8	91.0
Franchisee deposits	57.9	47.3
Other accrued liabilities	266.4	255.9
Total current liabilities	621.6	583.8
Long-term debt	971.2	967.9
Deferred income tax liabilities	119.4	108.1
Retiree health care benefits	49.2	52.8
Pension liabilities	255.6	317.7
Other long-term liabilities	98.6	95.3
Total liabilities	2,115.6	2,125.6
Commitments and contingencies (Note 13)		
Equity		
Shareholders' equity attributable to Snap-on Incorporated		
Preferred stock (authorized 15,000,000 shares of \$1 par value; none outstanding)		
Common stock (authorized 250,000,000 shares of \$1 par value; issued 67,356,585 and 67,335,341 shares)	67.4	67.3
Additional paid-in capital	205.0	181.4
Retained earnings	2,004.8	1,843.7
Accumulated other comprehensive loss	(131.0)	(174.6)
Treasury stock at cost (9,133,133 and 9,110,389 shares)	(406.5)	(386.9)
Total shareholders' equity attributable to Snap-on Incorporated	1,739.7	1,530.9
Noncontrolling interests	16.6	16.4
Total equity	1,756.3	1,547.3
Total liabilities and equity	\$ 3,871.9	\$ 3,672.9

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Amounts in millions, except share data)

(Unaudited)

The following summarizes the changes in total equity for the nine month period ending September 29, 2012:

	Shareholders equity attributable to Snap-on Incorporated						
	Common	Paid-in	Retained	Accumulated	Treasury	Noncontrolling	Total
	Stock	Capital	Earnings	Other Comprehensive Income (Loss)	Stock	Interests	Equity
Balance at December 31, 2011	\$ 67.3	\$ 181.4	\$ 1,843.7	\$ (174.6)	\$ (386.9)	\$ 16.4	\$ 1,547.3
Net earnings for the nine months ended September 29, 2012			221.5			6.4	227.9
Foreign currency translation				20.3			20.3
Change in cash flow hedges				(0.3)			(0.3)
Change in pension and postretirement plans,							
net of tax of \$13.3 million				23.6			23.6
Cash dividends \$1.02 per share			(59.4)				(59.4)
Dividend reinvestment plan and other	0.1	1.4	(1.0)			(6.2)	(5.7)
Stock compensation plans		17.2			42.2		59.4
Share repurchases 967,000 shares					(61.8)		(61.8)
Tax benefit from certain stock options		5.0					5.0
Balance at September 29, 2012	\$ 67.4	\$ 205.0	\$ 2,004.8	\$ (131.0)	\$ (406.5)	\$ 16.6	\$ 1,756.3

The following summarizes the changes in total equity for the nine month period ending October 1, 2011:

	Shareholders equity attributable to Snap-on Incorporated						
	Common	Paid-in	Retained	Accumulated	Treasury	Noncontrolling	Total
	Stock	Capital	Earnings	Other Comprehensive Income (Loss)	Stock	Interests	Equity
Balance at January 1, 2011	\$ 67.3	\$ 169.2	\$ 1,644.1	\$ (104.8)	\$ (387.3)	\$ 15.9	\$ 1,404.4
Net earnings for the nine months ended October 1, 2011			202.0			5.7	207.7
Foreign currency translation				18.1			18.1
Change in cash flow hedges				(0.3)			(0.3)
Cash dividends \$0.96 per share			(56.5)				(56.5)
Dividend reinvestment plan and other		1.5				(5.3)	(3.8)
Stock compensation plans		22.6			17.1		39.7
Share repurchases 628,000 shares					(37.4)		(37.4)
Tax benefit from certain stock options		2.3					2.3

Edgar Filing: SNAP-ON Inc - Form 10-Q

Balance at October 1, 2011	\$ 67.3	\$ 195.6	\$ 1,789.6	\$ (87.0)	\$ (407.6)	\$ 16.3	\$ 1,574.2
----------------------------	---------	----------	------------	-----------	------------	---------	------------

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Amounts in millions)

(Unaudited)

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Operating activities:		
Net earnings	\$ 227.9	\$ 207.7
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	37.6	36.8
Amortization of other intangibles	19.6	18.6
Provision for losses on finance receivables	13.8	8.7
Provision for losses on non-finance receivables	7.6	12.6
Stock-based compensation expense	25.0	12.4
Excess tax benefits from stock-based compensation	(5.0)	(2.2)
Deferred income tax provision (benefit)	3.6	(9.2)
Gain on sale of assets	(0.9)	
Changes in operating assets and liabilities:		
(Increase) decrease in trade and other accounts receivable	(18.9)	(15.3)
(Increase) decrease in contract receivables	(37.9)	(43.3)
(Increase) decrease in inventories	(27.4)	(69.2)
(Increase) decrease in prepaid and other assets	(32.0)	(34.0)
Increase (decrease) in accounts payable	23.8	(14.0)
Increase (decrease) in accruals and other liabilities	(10.4)	(53.4)
Net cash provided by operating activities	226.4	56.2
Investing activities:		
Additions to finance receivables	(426.1)	(386.5)
Collections of finance receivables	328.9	259.7
Capital expenditures	(59.5)	(46.6)
Disposal of property and equipment	2.4	3.0
Other	0.7	0.2
Net cash used by investing activities	(153.6)	(170.2)
Financing activities:		
Repayment of long-term debt		(200.0)
Proceeds from short-term borrowings	11.2	15.2
Repayments of short-term borrowings	(14.1)	(16.3)
Net increase (decrease) in other short-term borrowings	5.4	(0.4)
Purchase of treasury stock	(61.8)	(37.4)
Proceeds from stock purchase and option plans	40.3	28.1
Cash dividends paid	(59.4)	(56.5)
Excess tax benefits from stock-based compensation	5.0	2.2
Other	(8.7)	(6.5)
Net cash used by financing activities	(82.1)	(271.6)
Effect of exchange rate changes on cash and cash equivalents	(0.2)	(0.9)

Edgar Filing: SNAP-ON Inc - Form 10-Q

Decrease in cash and cash equivalents	(9.5)	(386.5)
Cash and cash equivalents at beginning of year	185.6	572.2
Cash and cash equivalents at end of period	\$ 176.1	\$ 185.7
Supplemental cash flow disclosures:		
Cash paid for interest	\$ (53.8)	\$ (58.9)
Net cash paid for income taxes	(59.8)	(108.8)
See Notes to Condensed Consolidated Financial Statements.		

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Summary of Accounting Policies

Principles of consolidation and presentation

The Condensed Consolidated Financial Statements include the accounts of Snap-on Incorporated (Snap-on or the company) and its wholly-owned and majority-owned subsidiaries. These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Snap-on's 2011 Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (2011 year end). The company's 2012 fiscal third quarter ended on September 29, 2012; the 2011 fiscal third quarter ended on October 1, 2011.

Snap-on accounts for investments in unconsolidated affiliates where Snap-on has a significant influence under the equity method of accounting. Investments in unconsolidated affiliates of \$44.9 million as of September 29, 2012, and \$40.7 million as of December 31, 2011, are included in Other assets on the accompanying Condensed Consolidated Balance Sheets. No equity investment dividends were received in the first nine months of 2012. For both the third quarter and first nine months of 2011, equity investment dividends totaled \$5.0 million. In the normal course of business, the company may purchase products or services from unconsolidated affiliates; purchases from unconsolidated affiliates were \$2.7 million and \$4.6 million in the third quarters of 2012 and 2011, respectively, and were \$10.8 million and \$15.4 million in the first nine months of 2012 and 2011, respectively. The Condensed Consolidated Financial Statements do not include the accounts of the company's independent franchisees. Snap-on's Condensed Consolidated Financial Statements are prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). All significant intercompany accounts and transactions have been eliminated.

Snap-on Credit LLC (SOC) is the company's financial services operation in the United States. Snap-on terminated its SOC financial services joint venture agreement with CIT Group Inc. (CIT) in July 2009 and subsequently acquired CIT's 50%-ownership interest in SOC. As a result, SOC became a wholly-owned subsidiary of Snap-on and Snap-on began providing financing for the majority of new loans originated by SOC; prior to July 2009, substantially all of the loans originated by SOC were sold to CIT.

Snap-on filed a notice of arbitration with the American Arbitration Association in 2010 concerning a dispute with CIT relating to various underpayments made during the course of their SOC financial services joint venture, in which Snap-on alleged damages of approximately \$115 million. CIT denied Snap-on's claim and asserted claims in excess of \$110 million against Snap-on for other matters relating to the joint venture. On May 5, 2011, Snap-on and CIT reached an amicable settlement of their respective claims and, in the second quarter of 2011, Snap-on recorded an \$18.0 million pretax arbitration settlement gain. The \$18.0 million arbitration settlement gain is included in Operating earnings from financial services on the accompanying Condensed Consolidated Statements of Earnings.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the Condensed Consolidated Financial Statements for the three and nine month periods ended September 29, 2012, and October 1, 2011, have been made. Interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Financial Instruments

The fair value of the company's derivative financial instruments is generally determined using quoted prices in active markets for similar assets and liabilities. The carrying value of the company's non-derivative financial instruments either approximate fair value, due to their short-term nature, or fair value is based upon a discounted cash flow analysis or quoted market values. See Note 8 for further information on financial instruments.

New Accounting Standards

Indefinite-lived Intangible Assets

The Financial Accounting Standards Board (FASB) issued updated authoritative guidance in July 2012 to amend previous guidance on the annual and interim testing of indefinite-lived intangible assets for impairment; the guidance becomes effective for Snap-on at the beginning of its 2013 fiscal year. The guidance provides entities with the option of first assessing qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If it is determined, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not less than the carrying amount, a quantitative impairment test would still be required. Annual impairment tests are performed by the company in the second quarter of each year. The adoption of this updated authoritative guidance is not expected to have a significant impact on the company's Condensed Consolidated Financial Statements. See Note 4 for further information on the company's annual impairment tests.

Goodwill

The FASB issued updated authoritative guidance in September 2011 to amend previous guidance on the annual and interim testing of goodwill for impairment; the guidance became effective for Snap-on at the beginning of its 2012 fiscal year. The guidance provides entities with the option of first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would still be required. Annual impairment tests are performed by the company in the second quarter of each year. The adoption of this updated authoritative guidance had no impact on the company's Condensed Consolidated Financial Statements. See Note 4 for further information on the company's annual impairment tests.

Fair Value Measurements

The FASB issued updated authoritative guidance in May 2011 to amend fair value measurements and related disclosures; the guidance became effective for Snap-on at the beginning of its 2012 fiscal year. This guidance relates to a major convergence project of the FASB and the International Accounting Standards Board to improve International Financial Reporting Standards (IFRS) and U.S. GAAP. This guidance results in a consistent definition of fair value and common requirements for the measurement of and disclosure about fair value between IFRS and U.S. GAAP. The guidance also changes some fair value measurement principles and enhances disclosure requirements related to activities in Level 3 of the fair value hierarchy. The adoption of this updated authoritative guidance had no impact on the company's Condensed Consolidated Financial Statements.

Disclosures Relating to Comprehensive Income

The FASB issued updated authoritative guidance in June 2011 to amend the presentation of comprehensive income in financial statements. The FASB also issued an accounting standards update in December 2011 that indefinitely deferred certain financial statement presentation provisions contained in its original June 2011 guidance. The guidance, which became effective for Snap-on on a retrospective basis at the beginning of its 2012 fiscal year, gives companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. Under both alternatives, companies are required to annually present each component of comprehensive

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

income. The adoption of this updated authoritative guidance impacted the presentation of the company's Condensed Consolidated Statements of Comprehensive Income, but it did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

Note 2: Accounts Receivable*Trade and Other Accounts Receivable*

Snap-on's trade and other accounts receivable primarily arise from the sale of tools, diagnostics and equipment to a broad range of industrial and commercial customers and to Snap-on's independent franchise van channel on a non-extended-term basis with payment terms generally ranging from 30 to 120 days.

The components of Snap-on's trade and other accounts receivable as of September 29, 2012, and December 31, 2011, are as follows:

<i>(Amounts in millions)</i>	September 29, 2012	December 31, 2011
Trade and other accounts receivable	\$ 495.2	\$ 485.5
Allowances for doubtful accounts	(18.3)	(22.0)
Total trade and other accounts receivable net	\$ 476.9	\$ 463.5

Finance and Contract Receivables

SOC originates extended-term finance and contract receivables on sales of Snap-on product sold through the U.S. franchisee and customer network and to Snap-on's industrial and other customers; Snap-on's foreign finance subsidiaries provide similar financing internationally. Interest income on finance and contract receivables is included in Financial services revenue on the accompanying Condensed Consolidated Statements of Earnings.

Snap-on's finance receivables are comprised of extended-term installment loans to technicians (i.e., franchisees' customers) to enable them to purchase tools, diagnostics and equipment on an extended-term payment plan, generally with average payment terms of 32 months. Contract receivables, with payment terms of up to 10 years, are comprised of extended-term installment loans to a broad base of industrial and other customers worldwide, including shop owners, both independents and national chains, for their purchase of tools, diagnostics and equipment. Contract receivables also include extended-term installment loans to franchisees to meet a number of financing needs, including van and truck leases, working capital loans, and loans to enable new franchisees to fund the purchase of the franchise. Finance and contract receivables are generally secured by the underlying tools, diagnostics or equipment financed and, for installment loans to franchisees, other franchisee assets.

During both the nine months ended September 29, 2012, and the fiscal year ended December 31, 2011, Snap-on did not purchase or sell any finance or contract receivables.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The components of Snap-on's current finance and contract receivables as of September 29, 2012, and December 31, 2011, are as follows:

<i>(Amounts in millions)</i>	September 29, 2012	December 31, 2011
Finance receivables, net of unearned finance charges of \$8.3 million and \$7.6 million	\$ 323.3	\$ 285.3
Contract receivables, net of unearned finance charges of \$9.7 million and \$9.1 million	63.7	51.2
Total	387.0	336.5
Allowances for doubtful accounts:		
Finance receivables	(8.9)	(8.1)
Contract receivables	(1.3)	(1.5)
Total	(10.2)	(9.6)
Total current finance and contract receivables net	\$ 376.8	\$ 326.9
Finance receivables net	\$ 314.4	\$ 277.2
Contract receivables net	62.4	49.7
Total current finance and contract receivables net	\$ 376.8	\$ 326.9

The components of Snap-on's finance and contract receivables with payment terms beyond one year as of September 29, 2012, and December 31, 2011, are as follows:

<i>(Amounts in millions)</i>	September 29, 2012	December 31, 2011
Finance receivables, net of unearned finance charges of \$11.1 million and \$9.4 million	\$ 499.7	\$ 447.9
Contract receivables, net of unearned finance charges of \$18.0 million and \$12.1 million	194.4	167.7
Total	694.1	615.6
Allowances for doubtful accounts:		
Finance receivables	(17.8)	(16.1)
Contract receivables	(2.0)	(2.6)
Total	(19.8)	(18.7)
Total long-term finance and contract receivables net	\$ 674.3	\$ 596.9

Edgar Filing: SNAP-ON Inc - Form 10-Q

Finance receivables	net	\$	481.9	\$	431.8	
Contract receivables	net		192.4		165.1	
Total long-term finance and contract receivables		net	\$	674.3	\$	596.9

Delinquency is the primary indicator of credit quality for finance and contract receivables. Receivable balances are considered delinquent when contractual payments on the loans become 30 days past due.

Finance receivables are generally placed on nonaccrual status (nonaccrual of interest and other fees) (i) when a customer is placed on repossession status; (ii) upon receipt of notification of bankruptcy; (iii) upon the death of a customer; or (iv) in other instances in which management concludes collectability is not reasonably assured. Finance receivables that are considered nonperforming include receivables that are on nonaccrual status and receivables that are generally more than 90 days past due.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

Contract receivables are generally placed on nonaccrual status (i) when a receivable is more than 90 days past due or at the point a customer's account is placed on terminated status regardless of its delinquency status; (ii) upon the death of a customer; or (iii) in other instances in which management concludes collectability is not reasonably assured. Contract receivables that are considered nonperforming include receivables that are on nonaccrual status and receivables that are generally more than 90 days past due.

The accrual of interest and other fees is resumed when the finance or contract receivable becomes contractually current and collection of all remaining contractual amounts due is reasonably assured. Finance and contract receivables are evaluated for impairment on a collective basis. A receivable is impaired when it is probable that all amounts related to the receivable will not be collected according to the contractual terms of the loan agreement. Impaired receivables are covered by the company's finance and contract allowances for doubtful accounts reserves and are charged-off against the reserves when appropriate. As of September 29, 2012, and December 31, 2011, there were \$13.1 million and \$11.5 million, respectively, of impaired finance receivables and, as of September 29, 2012, and December 31, 2011, there were \$0.8 million and \$0.7 million, respectively, of impaired contract receivables.

The aging of finance and contract receivables as of September 29, 2012, and December 31, 2011, is as follows:

	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Not Past Due	Total	Greater Than 90 Days Past Due and Accruing
<i>(Amounts in millions)</i>							
September 29, 2012:							
Finance receivables	\$ 8.4	\$ 5.2	\$ 7.6	\$ 21.2	\$ 801.8	\$ 823.0	\$ 5.5
Contract receivables	0.9	0.5	0.9	2.3	255.8	258.1	0.3

December 31, 2011:

Finance receivables	\$ 8.0	\$ 3.0	\$ 6.6	\$ 17.6	\$ 715.6	\$ 733.2	\$ 4.8
Contract receivables	0.9	0.4	0.6	1.9	217.0	218.9	0.2

The amount of performing and nonperforming finance and contract receivables based on payment activity as of September 29, 2012, and December 31, 2011, is as follows:

	September 29, 2012		December 31, 2011	
	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
<i>(Amounts in millions)</i>				
Performing	\$ 809.9	\$ 257.3	\$ 721.7	\$ 218.2
Nonperforming	13.1	0.8	11.5	0.7
Total	\$ 823.0	\$ 258.1	\$ 733.2	\$ 218.9

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The amount of finance and contract receivables on nonaccrual status as of September 29, 2012, and December 31, 2011, is as follows:

<i>(Amounts in millions)</i>	September 29, 2012	December 31, 2011
Finance receivables	\$ 7.6	\$ 6.8
Contract receivables	0.8	0.7

The following is a rollforward of the allowances for credit losses for finance and contract receivables for the three and nine months ended September 29, 2012:

	Three Months Ended September 29, 2012		Nine Months Ended September 29, 2012	
<i>(Amounts in millions)</i>	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Allowances for doubtful accounts:				
Beginning of period	\$ 25.4	\$ 4.2	\$ 24.2	\$ 4.1
Provision for bad debt expense	5.1	(0.5)	13.8	0.1
Charge-offs	(4.9)	(0.5)	(14.5)	(1.2)
Recoveries	1.1	0.1	3.2	0.3
End of period	\$ 26.7	\$ 3.3	\$ 26.7	\$ 3.3

The following is a rollforward of the allowances for credit losses for finance and contract receivables for the three and nine months ended October 1, 2011:

	Three Months Ended October 1, 2011		Nine Months Ended October 1, 2011	
<i>(Amounts in millions)</i>	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Allowances for doubtful accounts:				
Beginning of period	\$ 23.2	\$ 4.6	\$ 21.5	\$ 4.0
Provision for bad debt expense	2.3	1.0	8.7	1.7
Charge-offs	(3.3)	(0.4)	(10.0)	(1.1)
Recoveries	0.9	0.1	2.9	0.7
Currency translation	(0.1)		(0.1)	
End of period	\$ 23.0	\$ 5.3	\$ 23.0	\$ 5.3

Prior to the 2009 termination of the financial services joint venture with CIT, SOC sold substantially all new finance and contract loan originations to CIT on a limited recourse basis and SOC retained the right to service such loans for a contractual servicing fee. As of

Edgar Filing: SNAP-ON Inc - Form 10-Q

September 29, 2012, the remaining portfolio of receivables owned by CIT that is being serviced by SOC was approximately \$65.7 million, as compared to \$119.5 million at December 31, 2011. Contractual servicing fees were \$0.3 million and \$1.1 million for the three and nine month periods ended September 29, 2012, respectively, and \$0.4 million and \$1.8 million for the three and nine month periods ended October 1, 2011, respectively.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Note 3: Inventories**

Inventories by major classification were as follows:

<i>(Amounts in millions)</i>	September 29, 2012	December 31, 2011
Finished goods	\$ 361.5	\$ 343.8
Work in progress	40.0	32.2
Raw materials	87.5	80.5
Total FIFO value	489.0	456.5
Excess of current cost over LIFO cost	(71.5)	(70.1)
Total inventories net	\$ 417.5	\$ 386.4

Inventories accounted for using the first-in, first-out (FIFO) method as of September 29, 2012, and December 31, 2011, approximated 59% and 62%, respectively, of total inventories. The company accounts for its non-U.S. inventory on the FIFO basis. As of September 29, 2012, approximately 26% of the company's U.S. inventory was accounted for using the FIFO basis and 74% was accounted for using the last-in, first-out (LIFO) basis. There were no LIFO inventory liquidations in the three and nine month periods ended September 29, 2012, and October 1, 2011.

Note 4: Intangible and Other Assets

The changes in the carrying amount of goodwill by segment for the nine month period ended September 29, 2012, are as follows:

<i>(Amounts in millions)</i>	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Total
Balance as of December 31, 2011	\$ 297.0	\$ 12.5	\$ 486.3	\$ 795.8
Currency translation	3.2		0.9	4.1
Balance as of September 29, 2012	\$ 300.2	\$ 12.5	\$ 487.2	\$ 799.9

Additional disclosures related to other intangible assets as of September 29, 2012, and December 31, 2011, are as follows:

<i>(Amounts in millions)</i>	September 29, 2012		December 31, 2011	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization

Edgar Filing: SNAP-ON Inc - Form 10-Q

	Carrying Value		Carrying Value	
Amortized other intangible assets:				
Customer relationships	\$ 135.3	\$ (52.0)	\$ 134.4	\$ (45.3)
Developed technology	19.4	(18.5)	19.1	(16.8)
Internally developed software	101.8	(62.5)	85.1	(52.0)
Patents	27.6	(18.9)	27.2	(17.8)
Trademarks	2.6	(1.4)	2.4	(1.2)
Other	7.0	(1.1)	7.0	(0.9)
Total	293.7	(154.4)	275.2	(134.0)
Non-amortized trademarks	48.2		47.1	
Total other intangible assets	\$ 341.9	\$ (154.4)	\$ 322.3	\$ (134.0)

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

Snap-on completed its annual impairment testing of goodwill and other indefinite-lived intangible assets in the second quarter of 2012, the results of which did not result in any impairment. Significant and unanticipated changes in circumstances, such as significant declines in profitability and cash flow due to significant and long-term deterioration in macroeconomic, industry and market conditions, loss of key customers, changes in technology or markets, significant changes in key personnel or litigation, significant and sustained decrease in share price and/or other events, including effects from the sale or disposal of a reporting unit, could require a provision for impairment of goodwill and/or other intangible assets in a future period. As of September 29, 2012, the company has no accumulated impairment losses.

The weighted-average amortization periods related to other intangible assets are as follows:

<i>(In years)</i>	Weighted- average Amortization
Customer relationships	16
Developed technology	5
Internally developed software	3
Patents	11
Trademarks	6
Other	39

Snap-on is amortizing its customer relationships on an accelerated basis over a 16 year weighted-average life; the remaining intangibles are amortized on a straight-line basis. The weighted-average amortization period for all amortizable intangibles on a combined basis is 13 years.

The company's customer relationships generally have contractual terms of three to five years and are typically renewed without significant cost to the company. The weighted-average 16 year life for customer relationships is based on the company's historical renewal experience. Intangible asset renewal costs are expensed as incurred.

The aggregate amortization expense was \$6.6 million and \$19.6 million for the three and nine month periods ended September 29, 2012, respectively, and \$6.2 million and \$18.6 million for the three and nine month periods ended October 1, 2011, respectively. Based on current levels of amortizable intangible assets and estimated weighted-average useful lives, estimated annual amortization expense is expected to be \$25.9 million in 2012, \$21.1 million in 2013, \$14.9 million in 2014, \$10.7 million in 2015, \$9.3 million in 2016 and \$9.1 million in 2017.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Note 5: Exit and Disposal Activities**

Snap-on recorded costs associated with exit and disposal activities for the three and nine month periods ended September 29, 2012, and October 1, 2011, as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
<i>(Amounts in millions)</i>				
Exit and disposal costs:				
Cost of goods sold:				
Commercial & Industrial Group	\$ 0.9	\$ 0.2	\$ 3.6	\$ 0.4
Snap-on Tools Group	0.1	0.4	7.1	3.4
Repair Systems & Information Group			0.2	(0.1)
Total cost of goods sold	1.0	0.6	10.9	3.7
Operating expenses:				
Commercial & Industrial Group	1.3	2.2	5.3	2.7
Snap-on Tools Group			0.1	0.6
Repair Systems & Information Group		0.1	0.2	0.6
Corporate				0.2
Total operating expenses	1.3	2.3	5.6	4.1
Total exit and disposal costs:				
Commercial & Industrial Group	2.2	2.4	8.9	3.1
Snap-on Tools Group	0.1	0.4	7.2	4.0
Repair Systems & Information Group		0.1	0.4	0.5
Corporate				0.2
Total exit and disposal costs	\$ 2.3	\$ 2.9	\$ 16.5	\$ 7.8

Of the \$2.3 million and \$16.5 million of costs incurred during the three and nine month periods ended September 29, 2012, respectively, \$2.3 million and \$8.8 million, respectively, qualified for accrual treatment. Costs associated with exit and disposal activities in 2012 primarily related to the second-quarter 2012 settlement of a pension plan as a result of the 2011 closure of the company's Newmarket, Canada, facility and other headcount reductions, largely to improve the company's cost structure in Europe.

Snap-on's exit and disposal accrual activity for the first nine months of 2012 is as follows:

	Balance at December 31, 2011	Six Months Additions	Usage	Balance at June 30, 2012	Third Quarter Additions	Usage	Balance at September 29, 2012
<i>(Amounts in millions)</i>							

Edgar Filing: SNAP-ON Inc - Form 10-Q

Severance costs:														
Commercial & Industrial Group	\$	3.6	\$	6.5	\$	(3.7)	\$	6.4	\$	2.2	\$	(0.9)	\$	7.7
Snap-on Tools Group		0.6		(0.2)		(0.3)		0.1		0.1				0.2
Repair Systems & Information Group		3.8		0.2		(1.7)		2.3				(1.0)		1.3
Facility-related costs:														
Commercial & Industrial Group		0.4				(0.2)		0.2						0.2
Total	\$	8.4	\$	6.5	\$	(5.9)	\$	9.0	\$	2.3	\$	(1.9)	\$	9.4

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

As of September 29, 2012, Snap-on expects that approximately \$4.6 million of the \$9.4 million exit and disposal accrual will be utilized in 2012; the remaining accrual balance of approximately \$4.8 million will extend into 2013 for longer-term severance obligations.

Snap-on expects to fund the remaining cash requirements of its exit and disposal activities with available cash on hand, cash flows from operations and borrowings under the company's existing credit facilities. The estimated costs for the exit and disposal activities were based on management's best business judgment under prevailing circumstances.

Note 6: Income Taxes

Snap-on's effective income tax rate on earnings attributable to Snap-on was 33.1% and 33.0% in the first nine months of 2012 and 2011, respectively.

For the nine months ended September 29, 2012, Snap-on's unrecognized tax benefits increased by \$0.9 million primarily due to tax positions that Snap-on expects to take in future tax returns and the accrual of interest on tax positions taken in prior years.

Snap-on and its subsidiaries file income tax returns in the United States and in various state, local and foreign jurisdictions. It is reasonably possible that certain unrecognized tax benefits may either be settled with taxing authorities or the statutes of limitations for such items may lapse within the next 12 months, causing Snap-on's gross unrecognized tax benefits to decrease by a range of zero to \$1.9 million. Over the next 12 months, Snap-on anticipates taking certain tax positions on various tax returns for which the related tax benefit does not meet the recognition threshold. Accordingly, Snap-on's gross unrecognized tax benefits may increase by a range of zero to \$2.4 million over the next 12 months for uncertain tax positions expected to be taken in future tax filings.

Note 7: Short-term and Long-term Debt

Short-term and long-term debt as of September 29, 2012, and December 31, 2011, consisted of the following:

<i>(Amounts in millions)</i>	September 29, 2012	December 31, 2011
5.85% unsecured notes due 2014	\$ 100.0	\$ 100.0
5.50% unsecured notes due 2017	150.0	150.0
4.25% unsecured notes due 2018	250.0	250.0
6.70% unsecured notes due 2019	200.0	200.0
6.125% unsecured notes due 2021	250.0	250.0
Other debt*	39.9	34.1
	989.9	984.1
Less: notes payable and current maturities of long-term debt	(18.7)	(16.2)
Total long-term debt	\$ 971.2	\$ 967.9

*Includes fair value adjustments related to interest rate swaps.

Edgar Filing: SNAP-ON Inc - Form 10-Q

Snap-on has a five-year, \$500 million multi-currency revolving credit facility that terminates on December 8, 2016; as of September 29, 2012, no amounts were outstanding under this facility. Borrowings under the \$500 million revolving credit facility bear interest at varying rates based on Snap-on's then-current, long-term debt ratings. The \$500 million revolving credit facility's financial covenant requires that Snap-on maintain, as of each fiscal quarter end, either (i) a ratio of total debt to the sum of total debt plus equity (including noncontrolling interests) of not greater than 0.60 to 1.00; or (ii) a ratio

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

of total debt to the sum of net income plus interest expense, income taxes, depreciation, amortization and other non-cash or extraordinary charges for the preceding four fiscal quarters then ended of not greater than 3.50 to 1.00. As of September 29, 2012, the company's actual ratios of 0.36 and 1.61, respectively, were both within the permitted ranges set forth in this financial covenant.

Snap-on also has a 364-day loan and servicing agreement that allows Snap-on to borrow up to \$200 million (subject to borrowing base requirements) through the pledging of finance receivables under an asset-backed commercial paper conduit facility. On September 28, 2012, as previously reported, the loan and servicing agreement was amended to, among other things, (i) extend the expiration date of the agreement from September 28, 2012, to September 27, 2013 (unless earlier terminated or subsequently extended pursuant to the terms of the agreement); (ii) provide that any amounts remaining outstanding under the agreement as of September 28, 2015, or such earlier date as may be prescribed pursuant to the terms of the agreement, will become due and payable on such date; and (iii) change certain pricing terms. As of September 29, 2012, no amounts were outstanding under the loan and servicing agreement.

In addition to the financial covenant required by the \$500 million multi-currency revolving credit facility, discussed above, Snap-on's debt agreements and credit facilities, including the \$200 million loan and servicing agreement, also contain certain usual and customary borrowing, affirmative, negative and maintenance covenants. As of September 29, 2012, Snap-on was in compliance with all covenants of its debt agreements and credit facilities.

Note 8: Financial Instruments

Derivatives: All derivative instruments are reported in the Condensed Consolidated Financial Statements at fair value. Changes in the fair value of derivatives are recorded each period in earnings or on the accompanying Condensed Consolidated Balance Sheets, depending on whether the derivative is designated and effective as part of a hedged transaction. Gains or losses on derivative instruments recorded in Accumulated other comprehensive income (loss) (Accumulated OCI) must be reclassified to earnings in the period in which earnings are affected by the underlying hedged item and the ineffective portion of all hedges must be recognized in earnings in the period that such portion is determined to be ineffective.

The criteria used to determine if hedge accounting treatment is appropriate are (i) the designation of the hedge to an underlying exposure; (ii) whether or not overall risk is being reduced; and (iii) if there is a correlation between the value of the derivative instrument and the underlying hedged item. On the date a derivative contract is entered into, Snap-on designates the derivative as a fair value hedge, a cash flow hedge, a hedge of a net investment in a foreign operation, or a natural hedging instrument whose change in fair value is recognized as an economic hedge against changes in the value of the hedged item. Snap-on does not use derivative instruments for speculative or trading purposes.

The company is exposed to global market risks, including the effect of changes in foreign currency exchange rates and interest rates, and therefore uses derivatives to manage financial exposures that occur in the normal course of business. The primary risks managed by using derivative instruments are foreign currency risk and interest rate risk.

Foreign Currency Risk Management: Snap-on has significant international operations and is subject to certain risks inherent with foreign operations that include currency fluctuations and restrictions on the movement of funds. Foreign currency exchange risk exists to the extent that Snap-on has payment obligations or receipts denominated in currencies other than the functional currency, including intercompany loans denominated in foreign currencies. To manage these exposures, Snap-on identifies naturally offsetting positions and then purchases hedging instruments to protect the residual net exposures. Snap-on manages most of these exposures on a consolidated basis, which allows for netting of certain exposures to take advantage of natural offsets. Foreign currency forward contracts (foreign currency forwards) are used to hedge the net exposures. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. Snap-on's foreign currency forwards are typically not designated as hedges. The fair value changes of these contracts are reported in earnings as foreign exchange gain or loss, which is included in Other income (expense) net on the accompanying Condensed Consolidated Statements of Earnings.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

At September 29, 2012, Snap-on had \$209.9 million of net foreign currency forwards outstanding comprised of buy contracts of \$82.5 million in euros, \$70.1 million in Swedish kronor, \$37.3 million in Australian dollars, \$32.1 million in British pounds, \$25.1 million in Singapore dollars, \$7.0 million in Hong Kong dollars, \$5.0 million in South Korean won, \$3.9 million in Norwegian kroner, and \$6.8 million in other currencies, and sell contracts comprised of \$40.2 million in Canadian dollars, \$12.2 million in Japanese yen, \$3.8 million in Turkish lira, and \$3.7 million in other currencies. At December 31, 2011, Snap-on had \$183.8 million of net foreign currency forwards outstanding comprised of buy contracts including \$85.2 million in euros, \$59.8 million in Swedish kronor, \$35.3 million in British pounds, \$32.4 million in Australian dollars, \$18.8 million in Singapore dollars, \$6.1 million in Hong Kong dollars, \$5.7 million in Norwegian kroner, \$4.1 million in South Korean won, \$4.1 million in Danish kroner, and \$2.3 million in Chilean pesos, and sell contracts including \$51.1 million in Canadian dollars, \$12.3 million in Japanese yen, \$3.6 million in Turkish lira, and \$3.0 million in other currencies.

Interest Rate Risk Management: Snap-on aims to control funding costs by managing the exposure created by the differing maturities and interest rate structures of Snap-on's assets and liabilities through the use of interest rate swap agreements. Treasury lock agreements are used to manage potential changes in interest rates in anticipation of the issuance or sale of certain financial instruments.

Interest Rate Swap Agreements: Snap-on enters into interest rate swap agreements (interest rate swaps) to manage risks associated with changing interest rates related to the company's fixed rate borrowings. Interest rate swaps are accounted for as fair value hedges. The differentials paid or received on interest rate swaps are recognized as adjustments to Interest expense on the accompanying Consolidated Statements of Earnings. The effective portion of the change in fair value of the derivative is recorded in Current maturities of long-term debt or Long-term debt on the accompanying Condensed Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to Interest expense on the accompanying Condensed Consolidated Statements of Earnings. The notional amount of interest rate swaps outstanding and designated as fair value hedges was \$100.0 million as of both September 29, 2012, and December 31, 2011.

Treasury Lock Agreements: Snap-on enters into treasury lock agreements (treasury locks) from time to time to manage the potential change in interest rates in anticipation of issuing fixed rate debt. Treasury locks are accounted for as cash flow hedges. The effective differentials paid or received on treasury locks related to the anticipated issuance of fixed rate debt are recognized as adjustments to Interest expense on the accompanying Condensed Consolidated Statements of Earnings. There were no treasury locks outstanding as of September 29, 2012, or December 31, 2011, and no treasury locks were settled during the first nine months of 2012 or 2011.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

Fair Value Measurements: Snap-on has derivative assets and liabilities that are measured at Level 2 fair value on a recurring basis. The fair value of derivative instruments, including interest rate swaps and foreign currency forwards, included within the Condensed Consolidated Balance Sheets as of September 29, 2012, and December 31, 2011, are as follows:

		September 29, 2012		December 31, 2011	
		Asset	Liability	Asset	Liability
		Derivatives	Derivatives	Derivatives	Derivatives
		Fair Value	Fair Value	Fair Value	Fair Value
(Amounts in millions)					
Derivatives Designated as Hedging Instruments:					
Interest rate swaps	Other assets	\$ 21.3	\$	\$ 19.0	\$
Derivatives Not Designated as Hedging Instruments:					
Foreign currency forwards	Prepaid expenses and other assets	\$ 12.3	\$	\$ 4.3	\$
Foreign currency forwards	Other accrued liabilities		3.3		11.0
Total		\$ 12.3	\$ 3.3	\$ 4.3	\$ 11.0
Total derivatives instruments		\$ 33.6	\$ 3.3	\$ 23.3	\$ 11.0

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. Level 2 fair value measurements for derivative assets and liabilities are measured using quoted prices in active markets for similar assets and liabilities. Interest rate swaps are valued based on the nine-month LIBOR swap rate for similar instruments. Foreign currency forwards are valued based on exchange rates quoted by domestic and foreign banks for similar instruments. The company did not have any assets or liabilities measured at Level 1 or Level 3, or implement any changes in its valuation techniques as of and for the nine month period ended September 29, 2012.

The effect of derivative instruments designated as fair value hedges as included in the Condensed Consolidated Statements of Earnings is as follows:

		Effective Portion of Gain Recognized in Income Three Months Ended		Effective Portion of Gain Recognized in Income Nine Months Ended	
		September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
(Amounts in millions)					
Derivatives Designated as Fair Value Hedges:					
Interest rate swaps	Interest expense	\$ 0.8	\$ 1.1	\$ 2.5	\$ 4.0

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The effect of derivative instruments designated as cash flow hedges as included in Accumulated OCI on the Condensed Consolidated Balance Sheets and the Condensed Consolidated Statements of Earnings are as follows:

	Effective Portion of Gain Recognized in Accumulated OCI		Statement of	Effective Portion of Gain Reclassified from Accumulated OCI into Income	
	Three Months Ended			Three Months Ended	
	September 29, 2012	October 1, 2011	Earnings Presentation	September 29, 2012	October 1, 2011
(Amounts in millions)					
Derivatives Designated as Cash Flow Hedges:					
Treasury locks	\$	\$	Interest expense	\$ 0.1	\$ 0.1

	Effective Portion of Gain Recognized in Accumulated OCI Nine Months Ended		Statement of Earnings Presentation	Effective Portion of Gain Reclassified from Accumulated OCI into Income Nine Months Ended	
	September 29, 2012	October 1, 2011		September 29, 2012	October 1, 2011
<i>(Amounts in millions)</i>					
Derivatives Designated as Cash Flow Hedges:					
Treasury locks	\$	\$	Interest expense	\$ 0.3	\$ 0.3

The following table represents the effect of derivative instruments not designated as hedging instruments as included in the Condensed Consolidated Statements of Earnings:

		Gain / (Loss) Recognized in Income		Gain Recognized in Income	
	Statement of	Three Months Ended		Nine Months Ended	
	Earnings Presentation	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
<i>(Amounts in millions)</i>					
Derivatives Not Designated as Hedging Instruments:					
Foreign currency forwards	Other income (expense) net	\$ 7.9	\$ (11.6)	\$ 5.0	\$ 13.2

Snap-on's foreign currency forwards, as discussed above, are typically not designated as hedges for financial reporting purposes. The fair value changes of derivatives not designated as hedging instruments are reported in earnings as foreign exchange gain or loss in Other income (expense) net on the accompanying Condensed Consolidated Statements of Earnings. The \$7.9 million derivative gain recognized in the third quarter of 2012 was offset by transaction losses on net exposures of \$8.1 million, resulting in a net foreign exchange loss of \$0.2 million for the

Edgar Filing: SNAP-ON Inc - Form 10-Q

quarter. The \$11.6 million derivative loss recognized in the third quarter of 2011 was partially offset by transaction gains on net exposures of \$9.6 million, resulting in a net foreign exchange loss of \$2.0 million in the quarter. The \$5.0 million derivative gain recognized in the first nine months of 2012 was offset by transaction losses on net exposures of \$5.9 million, resulting in a 2012 year-to-date net foreign exchange loss of \$0.9 million. The \$13.2 million derivative gain recognized in the first nine months of 2011 was offset by transaction losses on net exposures of \$14.3 million, resulting in a 2011 year-to-date net foreign exchange loss of \$1.1 million. The resulting net foreign exchange gains and losses are included in Other income (expense) net on the accompanying Condensed Consolidated Statements of Earnings. See Note 14 for additional information on Other income (expense) net.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

As of September 29, 2012, the maximum maturity date of any fair value hedge was nine years. During the next 12 months, Snap-on expects to reclassify into earnings net gains from Accumulated OCI of approximately \$0.3 million after tax at the time the underlying hedge transactions are realized.

See the accompanying Condensed Consolidated Statements of Comprehensive Income for additional information on changes in comprehensive income.

Counterparty Risk: Snap-on is exposed to credit losses in the event of non-performance by the counterparties to its interest rate swaps and foreign currency forwards. Snap-on does not obtain collateral or other security to support financial instruments subject to credit risk, but monitors the credit standing of the counterparties and enters into agreements generally with financial institution counterparties with a credit rating of A- or better. Snap-on does not anticipate non-performance by its counterparties, but cannot provide assurances.

Fair Value of Financial Instruments: The fair values of financial instruments that do not approximate the carrying values in the financial statements are as follows:

	September 29, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(Amounts in millions)				
Finance receivables net	\$ 796.3	\$ 923.2	\$ 709.0	\$ 815.0
Contract receivables net	254.8	295.4	214.8	246.7
Long-term debt and notes payable and current maturities of long-term debt	989.9	1,140.6	984.1	1,101.5

The following methods and assumptions were used in estimating the fair value of financial instruments:

Finance and contract receivables include both short-term and long-term receivables. The fair value of finance and contract receivables was estimated, using Level 2 fair value measurements, based on a discounted cash flow analysis that was performed over the average life of the financing receivables using a current market discount rate of a similar term adjusted for credit quality.

Fair value of long-term debt and current maturities of long-term debt was estimated, using Level 2 fair value measurements, based on quoted market values of Snap-on's publicly traded senior debt. The carrying value of long-term debt and current maturities of long-term debt includes adjustments related to fair value hedges. The fair value of notes payable approximates such instruments carrying value due to their short-term nature.

The fair value of all other financial instruments including cash equivalents, trade and other accounts receivable, accounts payable and other financial instruments approximates such instruments' carrying value due to their short-term nature.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Note 9: Pension Plans**

Snap-on's net pension expense included the following components:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
<i>(Amounts in millions)</i>				
Service cost	\$ 5.3	\$ 4.7	\$ 15.8	\$ 14.2
Interest cost	12.9	13.4	38.7	40.1
Expected return on plan assets	(16.6)	(14.5)	(49.6)	(43.5)
Amortization of unrecognized loss	10.4	7.7	31.2	23.2
Amortization of prior service cost	0.3	0.3	0.9	0.9
Settlement loss recognized			6.8	
Net pension expense	\$ 12.3	\$ 11.6	\$ 43.8	\$ 34.9

Snap-on made discretionary cash contributions to its domestic pension plans of \$16.0 million in the third quarter of 2012 and \$20.0 million in the second quarter of 2012. Snap-on also made a \$25.0 million cash contribution to its domestic pension plans in the first quarter of 2012 that included (i) an \$18.3 million 2012 contribution required by law and (ii) a \$6.7 million discretionary cash contribution. Snap-on intends to make contributions of \$12.6 million to its foreign pension plans in 2012, as required by law. Depending on market and other conditions, Snap-on may elect to make additional discretionary cash contributions to its domestic pension plans in 2012.

Note 10: Postretirement Health Care Plans

Snap-on's net postretirement health care expense included the following components:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
<i>(Amounts in millions)</i>				
Service cost	\$ 0.7	\$ 0.1	\$ 0.1	\$ 0.2
Interest cost	0.7	0.8	2.0	2.5
Expected return on plan assets	(0.2)	(0.3)	(0.7)	(0.8)
Net postretirement expense	\$ 0.5	\$ 0.6	\$ 1.4	\$ 1.9

Note 11: Stock-Based Compensation

On April 28, 2011, shareholders approved the 2011 Incentive Stock and Awards Plan (the "2011 Plan"), which replaced the 2001 Incentive Stock and Awards Plan (the "2001 Plan"). The 2011 Plan, like the 2001 Plan, provides for the grant of stock options, performance awards, stock appreciation rights ("SARs") and restricted stock awards (which may be designated as restricted stock units or RSUs). No further grants are being made under the 2001 Plan, although outstanding awards continue until exercised, vested, forfeited or expired. As of September 29, 2012, the 2011 Plan had 3,914,162 shares available for future grants. The company uses treasury stock to deliver shares under the Plans.

Edgar Filing: SNAP-ON Inc - Form 10-Q

Net stock-based compensation expense was \$8.9 million and \$25.0 million for the three and nine month periods ended September 29, 2012, respectively, and \$0.2 million and \$12.4 million for the three and nine month periods ended October 1, 2011, respectively. Cash received from option exercises during the three and nine month periods ended September 29, 2012, totaled \$17.8 million and \$40.3 million, respectively. Cash received from option exercises during the three and nine month periods ended October 1, 2011, totaled \$1.8 million and \$28.1 million, respectively. The tax benefit realized from the exercise of share-based payment arrangements was \$3.8 million and \$8.8 million for the three and nine month periods ended September 29, 2012, respectively, and \$0.3 million and \$3.6 million for the three and nine month periods ended October 1, 2011, respectively.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)***Stock Options*

Stock options are granted with an exercise price equal to the market value of a share of common stock on the date of grant and have a contractual term of ten years. Stock option grants vest ratably on the first, second and third anniversaries of the date of grant.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model. The company uses historical data regarding stock option exercise behaviors for different participating groups to estimate the period of time that options granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company's stock for the length of time corresponding to the expected term of the option. The expected dividend yield is based on the company's historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve on the grant date for the expected term of the option. The following weighted-average assumptions were used in calculating the fair value of stock options granted during the three and nine month periods ended September 29, 2012, and October 1, 2011, using the Black-Scholes valuation model:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Expected term of option (<i>in years</i>)	5.29	5.55	5.36	5.89
Expected volatility factor	37.33%	36.30%	36.93%	34.20%
Expected dividend yield	2.73%	2.70%	2.72%	2.72%
Risk-free interest rate	0.67%	0.92%	0.82%	2.32%

A summary of stock option activity as of and for the nine month period ended September 29, 2012, is presented below:

	Shares (<i>in thousands</i>)	Exercise Price Per Share ^(*)	Remaining Contractual Term ^(*) (<i>in years</i>)	Aggregate Intrinsic Value (<i>in millions</i>)
Outstanding at December 31, 2011	2,533	\$ 45.07		
Granted	621	60.01		
Exercised	(823)	41.38		
Forfeited or expired	(30)	55.53		
Outstanding at September 29, 2012	2,301	50.29	7.25	\$ 49.7
Exercisable at September 29, 2012	1,144	43.65	5.74	32.3

* Weighted-average

Edgar Filing: SNAP-ON Inc - Form 10-Q

The weighted-average grant date fair value of options granted during the nine month periods ended September 29, 2012, and October 1, 2011, was \$15.46 and \$15.78, respectively. The intrinsic value of options exercised was \$10.1 million and \$18.8 million during the three and nine month periods ended September 29, 2012, respectively, and \$0.8 million and \$8.8 million during the three and nine month periods ended October 1, 2011, respectively. The fair value of stock options vested was \$5.7 million and \$4.5 million during the nine month periods ended September 29, 2012, and October 1, 2011, respectively.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

As of September 29, 2012, there was \$12.2 million of unrecognized compensation cost related to non-vested stock option compensation arrangements that is expected to be recognized as a charge to earnings over a weighted-average period of 2.0 years.

Performance Awards

Performance awards, which are granted as performance share units and performance-based RSUs, are earned and expensed using the fair value of the award over a contractual term of three years based on the company's performance. Vesting of the performance awards is dependent upon performance relative to pre-defined goals for revenue growth and return on net assets for the applicable performance period. For performance achieved above a certain level, the recipient may earn additional shares of stock, not to exceed 100% of the number of performance awards initially granted.

The performance share units have a three year performance period based on the results of the consolidated financial metrics of the company. The performance-based RSUs have a one year performance period based on the results of the consolidated financial metrics of the company followed by a two year cliff vesting schedule.

The fair value of these awards is estimated on the date of grant using the Black-Scholes valuation model. The company uses the vesting period of the performance awards as the expected term of the awards granted. Expected volatility is based on the historical volatility of the company's stock for the length of time corresponding to the expected term of the performance award. The risk-free interest rate is based on the U.S. treasury yield curve on the grant date for the length of time corresponding to the expected term of the performance award. The following weighted-average assumptions were used in calculating the fair value of performance awards granted during the nine month periods ended September 29, 2012, and October 1, 2011, using the Black-Scholes valuation model:

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Expected term of performance award (<i>in years</i>)	3.0	3.0
Expected volatility factor	34.42%	40.41%
Risk-free interest rate	0.35%	1.34%

The weighted-average grant date fair value of performance awards granted during the nine month periods ended September 29, 2012, and October 1, 2011, was \$60.00 and \$56.17, respectively. Performance awards for 53,990 shares vested and were paid out during the nine month period ended September 29, 2012; no performance awards were vested or paid out during the nine month period ended October 1, 2011, except as described below.

Based on the company's 2011 performance, 159,770 RSUs granted in 2011 were earned; assuming continued employment, these RSUs will vest at the end of fiscal 2013. Based on the company's 2010 performance, 169,921 RSUs granted in 2010 were earned; assuming continued employment, these RSUs will vest at the end of fiscal 2012. As a result of employee retirements, a total of 2,706 of the RSUs earned in 2010 vested pursuant to the terms of the related award agreements and were paid out in the first quarter of 2011.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The changes to the company's non-vested performance awards during the nine month period ended September 29, 2012, are as follows:

	Awards (in thousands)	Fair Value ^(*)
Non-vested performance awards at December 31, 2011	707	\$ 48.87
Granted	222	60.00
Vested		
Cancellations	(4)	59.47
Non-vested performance awards at September 29, 2012	925	51.50

* Weighted-average

As of September 29, 2012, there was \$18.8 million of unrecognized compensation cost related to non-vested performance awards that is expected to be recognized as a charge to earnings over a weighted-average period of 1.7 years.

Stock Appreciation Rights (SARs)

The company also issues SARs to certain key non-U.S. employees. SARs are granted with an exercise price equal to the market value of a share of Snap-on's common stock on the date of grant and have a contractual term of ten years and vest ratably on the first, second and third anniversaries of the date of grant. SARs provide for the cash payment of the excess of the fair market value of Snap-on's common stock price on the date of exercise over the grant price. SARs have no effect on dilutive shares or shares outstanding as any appreciation of Snap-on's common stock value over the grant price is paid in cash and not in common stock.

The fair value of SARs is revalued (mark-to-market) each reporting period using the Black-Scholes valuation model based on Snap-on's period-end stock price. The company uses historical data regarding SARs exercise behaviors for different participating groups to estimate the expected term of the SARs granted based on the period of time that similar instruments granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company's stock for the length of time corresponding to the expected term of the SARs. The expected dividend yield is based on the company's historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve in effect as of the reporting date for the length of time corresponding to the expected term of the SARs. The following weighted-average assumptions were used in calculating the fair value of SARs granted during the nine month periods ended September 29, 2012, and October 1, 2011, using the Black-Scholes valuation model; no SARs were granted during the three month period ended September 29, 2012, and October 1, 2011:

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Expected term of SARs (in years)	4.74	4.91
Expected volatility factor	37.11%	37.55%
Expected dividend yield	2.72%	2.70%

Edgar Filing: SNAP-ON Inc - Form 10-Q

Risk-free interest rate

0.62%

0.96%

The total intrinsic value of SARs exercised was \$1.0 million and \$3.0 million during the three and nine month periods ended September 29, 2012, respectively, and \$0.1 million and \$2.5 million during the three and nine month periods ended October 1, 2011, respectively. The total fair value of SARs vested during the nine month periods ended September 29, 2012, and October 1, 2011, was \$3.2 million and \$1.2 million, respectively.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

Changes to the company's non-vested SARs during the nine month period ended September 29, 2012, are as follows:

	SARs (in thousands)	Fair Value ^(*)
Non-vested SARs at December 31, 2011	232	\$ 13.56
Granted	130	21.63
Vested	(111)	28.50
Cancellations	(11)	
Non-vested SARs at September 29, 2012	240	21.66

* Weighted-average

As of September 29, 2012, there was \$5.2 million of unrecognized compensation cost related to non-vested SARs that is expected to be recognized as a charge to earnings over a weighted-average period of 1.7 years.

Restricted Stock Awards – Non-employee Directors

The company granted 17,811 restricted stock units to non-employee directors in the second quarter of 2012. All restrictions will lapse upon the recipient's termination of service as a director or in the event of a change in control, as defined in the 2011 Plan.

Note 12: Earnings Per Share

The shares used in the computation of the company's basic and diluted earnings per common share are as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Weighted-average common shares outstanding	58,257,569	58,165,001	58,195,162	58,177,595
Dilutive effect of stock-based instruments	600,067	514,874	619,474	547,107
Weighted-average common shares outstanding, assuming dilution	58,857,636	58,679,875	58,814,636	58,724,702

The dilutive effect of the potential exercise of outstanding stock-based instruments to purchase common shares is calculated using the treasury stock method. Options to purchase 395,524 shares of Snap-on common stock for the nine month period ended September 29, 2012, and options to purchase 612,205 shares and 1,227,693 shares of Snap-on common stock for the three and nine month periods ended October 1, 2011, respectively, were not included in the computations of diluted earnings per share as the exercise prices of the options were greater than the average market price of the common stock for the respective periods and the effect on earnings per share would be anti-dilutive. There were no

options outstanding that were anti-dilutive for the three month period ended September 29, 2012.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Note 13: Commitments and Contingencies**

Snap-on provides product warranties for specific product lines and accrues for estimated future warranty cost in the period in which the sale is recorded. Snap-on calculates its accrual requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience, including the timing of claims during the warranty period and actual costs incurred. Snap-on's product warranty accrual activity for the three and nine month periods ended September 29, 2012, and October 1, 2011, is as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
<i>(Amounts in millions)</i>				
Warranty reserve:				
Beginning of period	\$ 18.4	\$ 18.0	\$ 18.6	\$ 16.9
Additions	2.6	3.8	7.7	11.4
Usage	(2.1)	(3.7)	(7.4)	(10.2)
End of period	\$ 18.9	\$ 18.1	\$ 18.9	\$ 18.1

On May 5, 2011, Snap-on and CIT reached an amicable settlement of their respective claims (described in Note 1) and, in the second quarter of 2011, Snap-on recorded an \$18.0 million pretax arbitration settlement gain and paid \$89.8 million of cash to CIT, representing \$107.8 million of cash previously withheld net of the \$18.0 million settlement. The \$18.0 million arbitration settlement gain is included in Operating earnings from financial services on the accompanying Condensed Consolidated Statements of Earnings.

Snap-on has credit risk exposure for certain SOC-originated contracts with recourse provisions related to franchisee van loans sold by SOC; as of September 29, 2012, and December 31, 2011, \$13.4 million and \$13.9 million, respectively, of franchisee loans contain a recourse provision to Snap-on if the loans become more than 90 days past due. The asset value of the collateral underlying these recourse loans would serve to mitigate Snap-on's loss in the event of default. The estimated fair value of the guarantees for all loan originations with recourse as of September 29, 2012, was not material.

Snap-on is involved in various legal matters that are being litigated and/or settled in the ordinary course of business. Although it is not possible to predict the outcome of these legal matters, management believes that the results of these legal matters will not have a material impact on Snap-on's consolidated financial position, results of operations or cash flows.

Note 14: Other Income (Expense) Net

Other income (expense) net on the accompanying Condensed Consolidated Statements of Earnings consists of the following:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
<i>(Amounts in millions)</i>				
Interest income	\$ 0.3	\$ 0.3	\$ 0.5	\$ 1.1
Foreign exchange loss	(0.2)	(2.0)	(0.9)	(1.1)
Other			(0.1)	

Total other income (expense) net	\$ (0.2)	\$ (1.7)	\$ (0.5)	\$
----------------------------------	----------	----------	----------	----

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Note 15: Segments**

Snap-on's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on's reportable business segments are: (i) the Commercial & Industrial Group; (ii) the Snap-on Tools Group; (iii) the Repair Systems & Information Group; and (iv) Financial Services. The Commercial & Industrial Group consists of business operations serving a broad range of industrial and commercial customers worldwide, primarily through direct and distributor channels. The Snap-on Tools Group consists of business operations primarily serving automotive service technicians through the company's worldwide mobile tool distribution channel. The Repair Systems & Information Group consists of business operations serving other professional vehicle repair customers worldwide, primarily owners and managers of independent repair shops and original equipment manufacturer (OEM) dealership service and repair shops, through direct and distributor channels. Financial Services consists of the business operations of Snap-on's wholly-owned finance subsidiaries.

Snap-on evaluates the performance of its operating segments based on segment revenues, including both external and intersegment net sales, and segment operating earnings. Snap-on accounts for intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Corporate assets consist of cash and cash equivalents (excluding cash held at Financial Services), deferred income taxes, pension assets and certain other assets. All significant intersegment amounts are eliminated to arrive at Snap-on's consolidated financial results.

Financial data by segment is as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
<i>(Amounts in millions)</i>				
Net sales:				
Commercial & Industrial Group	\$ 280.4	\$ 278.3	\$ 850.3	\$ 830.4
Snap-on Tools Group	308.8	279.6	950.4	860.6
Repair Systems & Information Group	222.0	222.6	675.5	684.1
Segment net sales	811.2	780.5	2,476.2	2,375.1
Intersegment eliminations	(99.6)	(83.3)	(291.5)	(257.5)
Total net sales	\$ 711.6	\$ 697.2	\$ 2,184.7	\$ 2,117.6
Financial Services revenue	40.5	32.7	118.4	88.8
Total revenues	\$ 752.1	\$ 729.9	\$ 2,303.1	\$ 2,206.4
Operating earnings:				
Commercial & Industrial Group	\$ 33.4	\$ 29.6	\$ 95.4	\$ 90.4
Snap-on Tools Group	40.2	35.6	130.8	118.9
Repair Systems & Information Group	49.5	43.7	150.3	135.5
Financial Services*	27.9	20.8	77.4	68.8
Segment operating earnings	151.0	129.7	453.9	413.6
Corporate	(26.9)	(14.6)	(78.2)	(64.4)

Edgar Filing: SNAP-ON Inc - Form 10-Q

Operating earnings	\$ 124.1	\$ 115.1	\$ 375.7	\$ 349.2
Interest expense	(13.6)	(15.1)	(41.4)	(47.7)
Other income (expense) net	(0.2)	(1.7)	(0.5)	

Earnings before income taxes and equity earnings and equity earnings (loss)	\$ 110.3	\$ 98.3	\$ 333.8	\$ 301.5
---	----------	---------	----------	----------

* Financial Services operating earnings for the nine months ended October 1, 2011, includes an \$18.0 million pretax gain from the second quarter 2011 arbitration settlement with CIT.

Table of Contents**SNAP-ON INCORPORATED****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

Financial data by segment (continued):

<i>(Amounts in millions)</i>	September 29, 2012	December 31, 2011
Assets:		
Commercial & Industrial Group	\$ 922.2	\$ 919.3
Snap-on Tools Group	542.8	463.7
Repair Systems & Information Group	935.2	944.2
Financial Services	1,054.9	923.8
 Total assets from reportable segments	 \$ 3,455.1	 \$ 3,251.0
Corporate	473.1	470.1
Elimination of intersegment receivables	(56.3)	(48.2)
 Total assets	 \$ 3,871.9	 \$ 3,672.9

Table of Contents

SNAP-ON INCORPORATED

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS**

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Caution Regarding Forward-Looking Statements:

Statements in this document that are not historical facts, including statements that (i) are in the future tense; (ii) include the words expects, plans, targets, estimates, believes, anticipates, or similar words that reference Snap-on Incorporated (Snap-on or the company) or its management; (iii) are specifically identified as forward-looking; or (iv) describe Snap-on's or management's future outlook, plans, estimates, objectives or goals, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Snap-on cautions the reader that any forward-looking statements included in this document that are based upon assumptions and estimates were developed by management in good faith and are subject to risks, uncertainties or other factors that could cause (and in some cases have caused) actual results to differ materially from those described in any such statement. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results or regarded as a representation by the company or its management that the projected results will be achieved. For those forward-looking statements, Snap-on cautions the reader that numerous important factors, such as those listed below, as well as those factors discussed in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which are incorporated herein by reference, could affect the company's actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, Snap-on.

These risks and uncertainties include, without limitation, uncertainties related to estimates, statements, assumptions and projections generally, and the timing and progress with which Snap-on can attain value through its Snap-on Value Creation Processes, including its ability to realize efficiencies and savings from its rapid continuous improvement and other cost reduction initiatives, improve workforce productivity, implement reductions in workforce, achieve improvements in the company's manufacturing footprint and greater efficiencies in its supply chain, and enhance machine maintenance, plant productivity and manufacturing line set-up and change-over practices, any or all of which could result in production inefficiencies, higher costs and/or lost revenues. These risks also include uncertainties related to Snap-on's capability to implement future strategies with respect to its existing businesses, its ability to refine its brand and franchise strategies, retain and attract franchisees, further enhance service and value to franchisees and thereby help improve their sales and profitability, introduce successful new products, successfully pursue, complete and integrate acquisitions, as well as its ability to withstand disruption arising from natural disasters, planned facility closures or other labor interruptions, the effects of external negative factors, including continuing uncertainty in world financial markets, weakness in certain areas of the global economy, and significant changes in the current competitive environment, inflation, interest rates and other monetary and market fluctuations, changes in tax rates and regulations, and the impact of energy and raw material supply and pricing, including steel and gasoline, the amount, rate and growth of Snap-on's general and administrative expenses, including health care and postretirement costs (resulting from, among other matters, U.S. health care legislation and reforms), continuing and potentially increasing required contributions to pension and postretirement plans, the impacts of non-strategic business and/or product line rationalizations, and the effects on business as a result of new legislation and regulations, risks associated with technological systems and protections, and other world or local events outside Snap-on's control, including terrorist disruptions. Snap-on disclaims any responsibility to update any forward-looking statement provided in this document, except as required by law.

In addition, investors should be aware that generally accepted accounting principles in the United States of America (U.S. GAAP) prescribe when a company should reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for a major contingency. Reported results, therefore, may appear to be volatile in certain accounting periods.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(continued)

RESULTS OF OPERATIONS

Results of operations for the three month periods ended September 29, 2012, and October 1, 2011, are as follows:

<i>(Amounts in millions)</i>	September 29, 2012		Three Months Ended October 1, 2011		Change	
Net sales	\$ 711.6	100.0%	\$ 697.2	100.0%	\$ 14.4	2.1%
Cost of goods sold	(371.2)	-52.2%	(367.9)	-52.8%	(3.3)	-0.9%
Gross profit	340.4	47.8%	329.3	47.2%	11.1	3.4%
Operating expenses	(244.2)	-34.3%	(235.0)	-33.7%	(9.2)	-3.9%
Operating earnings before financial services	96.2	13.5%	94.3	13.5%	1.9	2.0%
Financial services revenue	40.5	100.0%	32.7	100.0%	7.8	23.9%
Financial services expenses	(12.6)	-31.1%	(11.9)	-36.4%	(0.7)	-5.9%
Operating earnings from financial services	27.9	68.9%	20.8	63.6%	7.1	34.1%
Operating earnings	124.1	16.5%	115.1	15.8%	9.0	7.8%
Interest expense	(13.6)	-1.8%	(15.1)	-2.1%	1.5	9.9%
Other income (expense) net	(0.2)		(1.7)	-0.2%	1.5	88.2%
Earnings before income taxes and equity earnings	110.3	14.7%	98.3	13.5%	12.0	12.2%
Income tax expense	(34.9)	-4.7%	(30.5)	-4.2%	(4.4)	-14.4%
Earnings before equity earnings	75.4	10.0%	67.8	9.3%	7.6	11.2%
Equity earnings, net of tax	1.0	0.2%	2.0	0.3%	(1.0)	-50.0%
Net earnings	76.4	10.2%	69.8	9.6%	6.6	9.5%
Net earnings attributable to noncontrolling interests	(2.3)	-0.3%	(2.0)	-0.3%	(0.3)	-15.0%
Net earnings attributable to Snap-on Inc.	\$ 74.1	9.9%	\$ 67.8	9.3%	\$ 6.3	9.3%

Percentage Disclosure: All income statement line item percentages below Operating earnings from financial services are calculated as a percentage of the sum of Net sales and Financial services revenue.

Net sales of \$711.6 million in the third quarter of 2012 increased \$14.4 million, or 2.1%, from 2011 levels; excluding \$16.6 million of unfavorable foreign currency translation, organic sales increased \$31.0 million, or 4.6%. Snap-on has significant international operations and is

Edgar Filing: SNAP-ON Inc - Form 10-Q

subject to certain risks inherent with foreign operations, including foreign currency translation fluctuations.

Gross profit of \$340.4 million in the third quarter of 2012 increased \$11.1 million as compared to \$329.3 million last year. Gross margin (gross profit as a percentage of net sales) of 47.8% in the quarter improved 60 basis points (100 basis points equals 1.0 percent) from 47.2% last year. The year-over-year improvement in gross margin primarily reflects savings from ongoing rapid continuous improvement and other cost reduction actions, including benefits from restructuring (collectively, RCI initiatives). Gross profit in the third quarter of 2012 reflects \$1.0 million of restructuring costs; third quarter 2011 restructuring costs totaled \$0.6 million.

Operating expenses of \$244.2 million in the third quarter of 2012 increased \$9.2 million as compared to \$235.0 million last year. As a result of changes in the company's quarter-end stock price, operating expenses in the third quarter of 2012 include an unfavorable \$4.4 million of stock-based (mark-to-market) expense, while operating expenses in the third quarter of 2011 included a favorable \$7.8 million mark-to-market benefit. Restructuring costs included in operating

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

expenses totaled \$1.3 million and \$2.3 million in the third quarters of 2012 and 2011, respectively. The operating expense margin (operating expenses as a percentage of sales) of 34.3% in the third quarter of 2012 increased 60 basis points from 33.7% last year as favorable sales volume leverage was more than offset by \$12.2 million, or 170 basis points, of higher mark-to-market expense.

Operating earnings before financial services of \$96.2 million in the third quarter of 2012 increased \$1.9 million from 2011 levels, despite \$12.2 million of higher mark-to-market expense. As a percentage of sales, operating earnings before financial services of 13.5% in the quarter, including the adverse 170 basis point impact from the higher mark-to-market expense, was unchanged from 13.5% last year.

Financial services operating earnings of \$27.9 million on revenue of \$40.5 million in the third quarter of 2012 compares with operating earnings of \$20.8 million on revenue of \$32.7 million last year. The year-over-year increase in both revenue and operating earnings primarily reflects the growth in the company's on-book finance portfolio.

Operating earnings of \$124.1 million in the third quarter of 2012 increased \$9.0 million, or 7.8%, as compared with operating earnings of \$115.1 million last year. As a percentage of revenues (net sales plus financial services revenue), operating earnings of 16.5% in the third quarter of 2012 improved 70 basis points from 15.8% last year.

Interest expense of \$13.6 million in the third quarter of 2012 decreased \$1.5 million from the comparable prior-year period primarily due to lower average debt levels. See Note 7 to the Condensed Consolidated Financial Statements for information on Snap-on's debt and credit facilities.

Other income (expense) net in the third quarters of 2012 and 2011 was expense of \$0.2 million and \$1.7 million, respectively. Other income (expense) net primarily includes interest income and hedging and currency exchange rate transaction gains and losses. See Note 14 to the Condensed Consolidated Financial Statements for information on other income (expense) net.

Snap-on's effective income tax rate on earnings attributable to Snap-on was 32.3% in the third quarter of 2012 and 31.7% in the third quarter of 2011. See Note 6 to the Condensed Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on in the third quarter of 2012 were \$74.1 million, or \$1.26 per diluted share, as compared with net earnings attributable to Snap-on of \$67.8 million, or \$1.16 per diluted share, in the third quarter of 2011.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(continued)

Results of operations for the nine month periods ended September 29, 2012, and October 1, 2011, are as follows:

<i>(Amounts in millions)</i>	September 29, 2012		Nine Months Ended October 1, 2011		Change	
Net sales	\$ 2,184.7	100.0%	\$ 2,117.6	100.0%	\$ 67.1	3.2%
Cost of goods sold	(1,146.7)	-52.5%	(1,115.5)	-52.7%	(31.2)	-2.8%
Gross profit	1,038.0	47.5%	1,002.1	47.3%	35.9	3.6%
Operating expenses	(739.7)	-33.8%	(721.7)	-34.1%	(18.0)	-2.5%
Operating earnings before financial services	298.3	13.7%	280.4	13.2%	17.9	6.4%
Financial services revenue	118.4	100.0%	88.8	100.0%	29.6	33.3%
Financial services expenses	(41.0)	-34.6%	(38.0)	-42.8%	(3.0)	-7.9%
Operating earnings from financial services before arbitration settlement	77.4	65.4%	50.8	57.2%	26.6	52.4%
Arbitration settlement			18.0	20.3%	(18.0)	NM
Operating earnings from financial services	77.4	65.4%	68.8	77.5%	8.6	12.5%
Operating earnings	375.7	16.3%	349.2	15.8%	26.5	7.6%
Interest expense	(41.4)	-1.8%	(47.7)	-2.2%	6.3	13.2%
Other income (expense) net	(0.5)				(0.5)	NM
Earnings before income taxes and equity earnings	333.8	14.5%	301.5	13.6%	32.3	10.7%
Income tax expense	(108.4)	-4.7%	(97.5)	-4.4%	(10.9)	-11.2%
Earnings before equity earnings	225.4	9.8%	204.0	9.2%	21.4	10.5%
Equity earnings, net of tax	2.5	0.1%	3.7	0.2%	(1.2)	-32.4%
Net earnings	227.9	9.9%	207.7	9.4%	20.2	9.7%
Net earnings attributable to noncontrolling interests	(6.4)	-0.3%	(5.7)	-0.2%	(0.7)	-12.3%
Net earnings attributable to Snap-on Inc.	\$ 221.5	9.6%	\$ 202.0	9.2%	\$ 19.5	9.7%

NM: Not meaningful

Edgar Filing: SNAP-ON Inc - Form 10-Q

Percentage Disclosure: All income statement line item percentages below Operating earnings from financial services are calculated as a percentage of the sum of Net sales and Financial services revenue.

Net sales of \$2,184.7 million in the first nine months of 2012 were up \$67.1 million, or 3.2%, from 2011 levels; excluding \$44.1 million of unfavorable foreign currency translation, organic sales increased \$111.2 million, or 5.4%. Snap-on has significant international operations and is subject to certain risks inherent with foreign operations, including foreign currency translation fluctuations.

Gross profit of \$1,038.0 million in the first nine months of 2012 increased \$35.9 million as compared to \$1,002.1 million last year. Gross margin of 47.5% in the first nine months of 2012 improved 20 basis points from 2011 levels, primarily due to benefits from ongoing RCI initiatives partially offset by \$7.2 million of higher restructuring costs. Gross profit in the first nine months of 2012 reflects \$10.9 million of restructuring costs, including \$6.8 million for the second quarter settlement of a pension plan following the 2011 closure of the company's Newmarket, Canada, facility; restructuring costs in the first nine months of 2011 totaled \$3.7 million.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****(continued)**

Operating expenses of \$739.7 million in the first nine months of 2012 increased \$18.0 million as compared to \$721.7 million last year. As a result of changes in the company's period-end stock price, operating expenses in the first nine months of 2012 included an unfavorable \$11.8 million of mark-to-market expense, while operating expenses in the first nine months of 2011 included a favorable \$2.3 million mark-to-market benefit. Restructuring costs included in operating expenses totaled \$5.6 million in the first nine months of 2012 as compared to \$4.1 million last year. The operating expense margin of 33.8% in the first nine months of 2012 improved 30 basis points from 34.1% last year primarily due to benefits from sales volume leverage and savings from ongoing RCI initiatives. These improvements were partially offset by \$14.1 million, or 60 basis points, of higher mark-to-market expense.

Operating earnings before financial services of \$298.3 million in the first nine months of 2012 increased \$17.9 million from 2011 levels, despite \$14.1 million of higher mark-to-market expense. As a percentage of sales, operating earnings before financial services of 13.7%, including the adverse 60 basis point impact from the higher mark-to-market expense, improved 50 basis points from 13.2% last year.

Snap-on filed a notice of arbitration with the American Arbitration Association in 2010 concerning a dispute with CIT Group Inc. (CIT) relating to various underpayments made during the course of their Snap-on Credit LLC (SOC) financial services joint venture, in which Snap-on alleged damages of approximately \$115 million. CIT denied Snap-on's claim and asserted claims in excess of \$110 million against Snap-on for other matters related to the joint venture. On May 5, 2011, Snap-on and CIT reached an amicable settlement of their respective claims and, in the second quarter of 2011, Snap-on recorded an \$18.0 million pretax (\$11.1 million after tax or \$0.19 per diluted share) arbitration settlement gain. The \$18.0 million arbitration settlement gain is included in Operating earnings from financial services on the accompanying Condensed Consolidated Statements of Earnings.

Financial services operating earnings of \$77.4 million on revenue of \$118.4 million in the first nine months of 2012 compares with operating earnings (before arbitration settlement) of \$50.8 million on revenue of \$88.8 million last year. The year-over-year increase in both revenue and operating earnings (before arbitration settlement) primarily reflects the growth in the company's on-book finance portfolio. In the first nine months of 2011, operating earnings from financial services, including the \$18.0 million arbitration settlement gain discussed above, was \$68.8 million.

Operating earnings The following non-GAAP financial data is being provided as management believes that the non-GAAP measures, which exclude the second quarter 2011 arbitration settlement gain, provide a more meaningful comparison of the company's year-over-year operating performance.

<i>(Amounts in millions)</i>	September 29, 2012		Nine Months Ended October 1, 2011		Change	
Operating earnings:						
As reported	\$ 375.7	16.3%	\$ 349.2	15.8%	\$ 26.5	7.6%
Less: Arbitration settlement gain			(18.0)	-0.8%	18.0	NM
Excluding arbitration settlement gain	\$ 375.7	16.3%	\$ 331.2	15.0%	\$ 44.5	13.4%

NM: Not meaningful

Percentage Disclosure: Calculated as a percentage of the sum of Net sales and Financial services revenue.

Edgar Filing: SNAP-ON Inc - Form 10-Q

Operating earnings of \$375.7 million in the first nine months of 2012 increased \$44.5 million, or 13.4%, as compared with operating earnings of \$331.2 million last year, excluding the \$18.0 million arbitration settlement gain. As a percentage of revenues, operating earnings of 16.3% in the first nine months of 2012 improved 130 basis points from 15.0% last year, excluding the arbitration settlement gain. Operating earnings, including the \$18.0 million arbitration settlement gain, were \$349.2 million in the first nine months of 2011. See Notes 1 and 13 to the Condensed Consolidated Financial Statements for information on the arbitration settlement.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

Interest expense of \$41.4 million in the first nine months of 2012 decreased \$6.3 million from the comparable prior-year period primarily due to lower average debt levels. See Note 7 to the Condensed Consolidated Financial Statements for information on Snap-on's debt and credit facilities.

Other income (expense) net in the first nine months of 2012 and 2011 was expense of \$0.5 million and zero, respectively. Other income (expense) net primarily includes interest income and hedging and currency exchange rate transaction gains and losses. See Note 14 to the Condensed Consolidated Financial Statements for information on other income (expense) net.

Snap-on's effective income tax rate on earnings attributable to Snap-on was 33.1% in the first nine months of 2012 and 33.0% in the first nine months of 2011. See Note 6 to the Condensed Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on in the first nine months of 2012 were \$221.5 million, or \$3.77 per diluted share. Net earnings attributable to Snap-on in the first nine months of 2011 of \$202.0 million, or \$3.44 per diluted share, included the \$11.1 million, or \$0.19 per diluted share, after-tax gain from the arbitration settlement with CIT discussed above.

Exit and Disposal Activities

Snap-on recorded costs of \$2.3 million and \$16.5 million for exit and disposal activities in the three and nine month periods ended September 29, 2012, respectively, as compared to costs of \$2.9 million and \$7.8 million for such activities in the three and nine month periods ended October 1, 2011, respectively. See Note 5 to the Condensed Consolidated Financial Statements for information on Snap-on's exit and disposal activities.

Segment Results

Snap-on's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on's reportable business segments are: (i) the Commercial & Industrial Group; (ii) the Snap-on Tools Group; (iii) the Repair Systems & Information Group; and (iv) Financial Services. The Commercial & Industrial Group consists of business operations serving a broad range of industrial and commercial customers worldwide, primarily through direct and distributor channels. The Snap-on Tools Group consists of business operations primarily serving automotive service technicians through the company's worldwide mobile tool distribution channel. The Repair Systems & Information Group consists of business operations serving other professional vehicle repair customers worldwide, primarily owners and managers of independent repair shops and original equipment manufacturer (OEM) dealership service and repair shops, through direct and distributor channels. Financial Services consists of the business operations of Snap-on's wholly-owned finance subsidiaries.

Snap-on evaluates the performance of its operating segments based on segment revenues, including both external and intersegment net sales, and segment operating earnings. Snap-on accounts for intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Corporate assets consist of cash and cash equivalents (excluding cash held at Financial Services), deferred income taxes, pension assets and certain other assets. All significant intersegment amounts are eliminated to arrive at Snap-on's consolidated financial results.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(continued)

Commercial & Industrial Group

(Amounts in millions)	September 29, 2012		Three Months Ended October 1, 2011		Change	
External net sales	\$ 230.5	82.2%	\$ 237.4	85.3%	\$ (6.9)	-2.9%
Intersegment net sales	49.9	17.8%	40.9	14.7%	9.0	22.0%
Segment net sales	280.4	100.0%	278.3	100.0%	2.1	0.8%
Cost of goods sold	(176.7)	-63.0%	(175.5)	-63.1%	(1.2)	-0.7%
Gross profit	103.7	37.0%	102.8	36.9%	0.9	0.9%
Operating expenses	(70.3)	-25.1%	(73.2)	-26.3%	2.9	4.0%
Segment operating earnings	\$ 33.4	11.9%	\$ 29.6	10.6%	\$ 3.8	12.8%

Segment net sales of \$280.4 million in the third quarter of 2012 increased \$2.1 million, or 0.8%, from 2011 levels. Excluding \$8.8 million of unfavorable currency translation, organic sales increased \$10.9 million, or 4.0%, primarily as a result of mid-to-high single-digit sales increases in the businesses serving customers in critical industries and in the emerging markets of Asia, along with a double-digit increase in sales of power tools. These year-over-year increases were partially offset by a mid single-digit organic sales decline in the segment's European-based hand tools business as a result of continued market weakness, particularly in southern Europe.

Segment gross profit of \$103.7 million in the third quarter of 2012 increased \$0.9 million from 2011 levels. Gross margin of 37.0% in the quarter improved 10 basis points from 36.9% last year. Gross profit in the third quarters of 2012 and 2011 reflects \$0.9 million and \$0.2 million, respectively, of restructuring costs.

Segment operating expenses of \$70.3 million in the third quarter of 2012 decreased \$2.9 million from 2011 levels. The operating expense margin of 25.1% in the quarter improved 120 basis points from 26.3% last year primarily due to benefits from sales volume leverage. Restructuring costs included in operating expenses were \$1.3 million and \$2.2 million in the third quarters of 2012 and 2011, respectively.

As a result of these factors, segment operating earnings of \$33.4 million in the third quarter of 2012, including \$1.4 million of favorable foreign currency effects, increased \$3.8 million, or 12.8%, from 2011 levels. Operating margin (segment operating earnings as a percentage of segment net sales) for the Commercial & Industrial Group of 11.9% in the third quarter of 2012 improved 130 basis points from 10.6% last year.

(Amounts in millions)	September 29, 2012		Nine Months Ended October 1, 2011		Change	
External net sales	\$ 703.8	82.8%	\$ 705.1	84.9%	\$ (1.3)	-0.2%
Intersegment net sales	146.5	17.2%	125.3	15.1%	21.2	16.9%
Segment net sales	850.3	100.0%	830.4	100.0%	19.9	2.4%
Cost of goods sold	(540.3)	-63.5%	(521.6)	-62.8%	(18.7)	-3.6%

Edgar Filing: SNAP-ON Inc - Form 10-Q

Gross profit	310.0	36.5%	308.8	37.2%	1.2	0.4%
Operating expenses	(214.6)	-25.3%	(218.4)	-26.3%	3.8	1.7%
Segment operating earnings	\$ 95.4	11.2%	\$ 90.4	10.9%	\$ 5.0	5.5%

Segment net sales of \$850.3 million in the first nine months of 2012 increased \$19.9 million, or 2.4%, from 2011 levels. Excluding \$22.0 million of unfavorable foreign currency translation, organic sales increased \$41.9 million, or 5.2%, primarily as a result of a high single-digit sales increase in the business serving customers in critical industries, a double-digit sales increase in the emerging markets of Asia, and a double-digit increase in sales of power tools. These year-over-year increases were partially offset by a mid single-digit organic sales decline in the segment's European-based hand tools business as a result of continued market weakness, particularly in southern Europe.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****(continued)**

Segment gross profit of \$310.0 million in the first nine months of 2012 increased \$1.2 million from 2011 levels. Gross margin of 36.5% in the first nine months of 2012 decreased 70 basis points from 37.2% last year as margin pressure in the segment's European-based hand tools business and \$3.2 million of higher restructuring costs, primarily to improve the segment's cost structure in Europe, were partially offset by savings from ongoing RCI initiatives and favorable foreign currency effects. Gross profit in the first nine months of 2012 and 2011 reflects restructuring costs of \$3.6 million and \$0.4 million, respectively.

Segment operating expenses of \$214.6 million in the first nine months of 2012 decreased \$3.8 million from 2011 levels. The operating expense margin of 25.3% in 2012 improved 100 basis points from 26.3% last year primarily due to benefits from sales volume leverage partially offset by \$2.6 million of higher restructuring costs in Europe. Restructuring costs included in operating expenses were \$5.3 million and \$2.7 million in the first nine months of 2012 and 2011, respectively.

As a result of these factors, segment operating earnings of \$95.4 million in the first nine months of 2012, including \$2.7 million of favorable foreign currency effects, increased \$5.0 million, or 5.5%, from 2011 levels. Operating margin for the Commercial & Industrial Group of 11.2% in the first nine months of 2012 increased 30 basis points from 10.9% last year, despite a 70 basis point decline as a result of the higher restructuring costs.

Snap-on Tools Group

<i>(Amounts in millions)</i>	September 29, 2012		Three Months Ended October 1, 2011		Change	
Segment net sales	\$ 308.8	100.0%	\$ 279.6	100.0%	\$ 29.2	10.4%
Cost of goods sold	(177.5)	-57.5%	(154.4)	-55.2%	(23.1)	-15.0%
Gross profit	131.3	42.5%	125.2	44.8%	6.1	4.9%
Operating expenses	(91.1)	-29.5%	(89.6)	-32.1%	(1.5)	-1.7%
Segment operating earnings	\$ 40.2	13.0%	\$ 35.6	12.7%	\$ 4.6	12.9%

Segment net sales of \$308.8 million in the third quarter of 2012 increased \$29.2 million, or 10.4%, from 2011 levels. Excluding \$1.6 million of unfavorable foreign currency translation, organic sales increased \$30.8 million, or 11.1%, reflecting double-digit sales increases across the company's U.S. and international franchise operations.

Segment gross profit of \$131.3 million in the third quarter of 2012 increased \$6.1 million from 2011 levels. Gross margin of 42.5% in the quarter decreased 230 basis points from 44.8% last year primarily due to increased promotional programs associated with sales gains, including expanded participation at the August 2012 annual Snap-on Franchisee Conference. Gross profit in the third quarters of 2012 and 2011 also reflects \$0.1 million and \$0.4 million, respectively, of restructuring costs.

Segment operating expenses of \$91.1 million in the third quarter of 2012 increased \$1.5 million from 2011 levels primarily due to higher volume-related and other expenses. The operating expense margin of 29.5% in the quarter improved 260 basis points from 32.1% last year primarily due to benefits from sales volume leverage.

As a result of these factors, segment operating earnings of \$40.2 million in the third quarter of 2012, including \$1.7 million of unfavorable foreign currency effects, increased \$4.6 million, or 12.9%, from 2011 levels. Operating margin for the Snap-on Tools Group of 13.0% in the

third quarter of 2012 increased 30 basis points from 12.7% last year.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(continued)

<i>(Amounts in millions)</i>	September 29, 2012		Nine Months Ended October 1, 2011		Change	
Segment net sales	\$ 950.4	100.0%	\$ 860.6	100.0%	\$ 89.8	10.4%
Cost of goods sold	(543.1)	-57.1%	(478.1)	-55.6%	(65.0)	-13.6%
Gross profit	407.3	42.9%	382.5	44.4%	24.8	6.5%
Operating expenses	(276.5)	-29.1%	(263.6)	-30.6%	(12.9)	-4.9%
Segment operating earnings	\$ 130.8	13.8%	\$ 118.9	13.8%	\$ 11.9	10.0%

Segment net sales of \$950.4 million in the first nine months of 2012 increased \$89.8 million, or 10.4%, from 2011 levels. Excluding \$5.5 million of unfavorable foreign currency translation, organic sales increased \$95.3 million, or 11.1%, reflecting higher sales across the company's U.S. and international franchise operations.

Segment gross profit of \$407.3 million in the first nine months of 2012 increased \$24.8 million from 2011 levels. Gross margin of 42.9% in the first nine months of 2012 decreased 150 basis points from 44.4% last year primarily due to higher year-over-year restructuring costs and increased promotional programs associated with sales gains, including expanded participation at the August 2012 annual Snap-on Franchisee Conference. Gross profit in the first nine months of 2012 reflects \$7.1 million of restructuring costs, including \$6.8 million for the second quarter settlement of a pension plan following the 2011 closure of the Newmarket, Canada, facility; restructuring costs in the first nine months of 2011 totaled \$3.4 million. In 2011, Snap-on closed its Newmarket tool storage facility and consolidated its North American tool storage operations into its existing Algona, Iowa, facility.

Segment operating expenses of \$276.5 million in the first nine months of 2012 increased \$12.9 million from 2011 levels primarily due to higher volume-related and other expenses. Restructuring costs included in operating expenses were \$0.1 million and \$0.6 million in the first nine months of 2012 and 2011, respectively. The operating expense margin of 29.1% in the first nine months of 2012 improved 150 basis points from 30.6% last year primarily due to benefits from sales volume leverage and contributions from ongoing RCI initiatives.

As a result of these factors, segment operating earnings of \$130.8 million in the first nine months of 2012, including \$0.8 million of unfavorable foreign currency effects, increased \$11.9 million, or 10.0%, from 2011 levels. Operating margin for the Snap-on Tools Group was 13.8% in both the first nine months of 2012 and 2011.

Repair Systems & Information Group

<i>(Amounts in millions)</i>	September 29, 2012		Three Months Ended October 1, 2011		Change	
External net sales	\$ 172.3	77.6%	\$ 180.2	81.0%	\$ (7.9)	-4.4%
Intersegment net sales	49.7	22.4%	42.4	19.0%	7.3	17.2%
Segment net sales	222.0	100.0%	222.6	100.0%	(0.6)	-0.3%
Cost of goods sold	(116.6)	-52.5%	(121.3)	-54.5%	4.7	3.9%
Gross profit	105.4	47.5%	101.3	45.5%	4.1	4.0%
Operating expenses	(55.9)	-25.2%	(57.6)	-25.9%	1.7	3.0%

Edgar Filing: SNAP-ON Inc - Form 10-Q

Segment operating earnings	\$	49.5	22.3%	\$	43.7	19.6%	\$	5.8	13.3%
----------------------------	----	------	-------	----	------	-------	----	-----	-------

Segment net sales of \$222.0 million in the third quarter of 2012 decreased \$0.6 million, or 0.3%, from 2011 levels. Excluding \$6.5 million of unfavorable foreign currency translation, organic sales increased \$5.9 million, or 2.7%, primarily due to a high single-digit increase in sales of diagnostics and repair information products and a mid single-digit increase in worldwide sales of equipment products. These year-over-year increases were partially offset by a mid single-digit decline in sales to OEM dealerships, particularly in Europe.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****(continued)**

Segment gross profit of \$105.4 million in the third quarter of 2012 increased \$4.1 million from 2011 levels. Gross margin of 47.5% in the third quarter of 2012 improved 200 basis points from 45.5% last year primarily due to a more favorable sales mix that included higher sales of diagnostics and repair information products, and savings from ongoing RCI initiatives.

Segment operating expenses of \$55.9 million in the third quarter of 2012 decreased \$1.7 million from 2011 levels. The operating expense margin of 25.2% in the quarter improved 70 basis points from 25.9% last year primarily due to sales volume leverage and contributions from ongoing RCI initiatives.

As a result of these factors, segment operating earnings of \$49.5 million in the third quarter of 2012, including \$0.9 million of unfavorable foreign currency effects, increased \$5.8 million, or 13.3%, from 2011 levels. Operating margin for the Repair Systems & Information Group of 22.3% in the third quarter of 2012 increased 270 basis points from 19.6% last year.

<i>(Amounts in millions)</i>	September 29, 2012		Nine Months Ended October 1, 2011		Change	
External net sales	\$ 530.5	78.5%	\$ 551.9	80.7%	\$ (21.4)	-3.9%
Intersegment net sales	145.0	21.5%	132.2	19.3%	12.8	9.7%
Segment net sales	675.5	100.0%	684.1	100.0%	(8.6)	-1.3%
Cost of goods sold	(354.8)	-52.5%	(373.3)	-54.6%	18.5	5.0%
Gross profit	320.7	47.5%	310.8	45.4%	9.9	3.2%
Operating expenses	(170.4)	-25.2%	(175.3)	-25.6%	4.9	2.8%
Segment operating earnings	\$ 150.3	22.3%	\$ 135.5	19.8%	\$ 14.8	10.9%

Segment net sales of \$675.5 million in the first nine months of 2012 decreased \$8.6 million, or 1.3%, from 2011 levels. Excluding \$17.1 million of unfavorable foreign currency translation, organic sales increased \$8.5 million, or 1.3%, primarily due to a high single-digit increase in sales of diagnostics and repair information products, partially offset by reduced undercar equipment sales in Europe and a low single-digit decline in sales to OEM dealerships, particularly in Europe.

Segment gross profit of \$320.7 million in the first nine months of 2012 increased \$9.9 million from 2011 levels. Gross margin in the first nine months of 2012 improved 210 basis points to 47.5% from 45.4% last year primarily due to a more favorable sales mix that included higher sales of diagnostics and repair information products and savings from ongoing RCI initiatives.

Segment operating expenses of \$170.4 million in the first nine months of 2012 decreased \$4.9 million from 2011 levels and the operating expense margin of 25.2% in the quarter improved 40 basis points from 25.6% last year primarily due to sales volume leverage and contributions from ongoing RCI initiatives.

As a result of these factors, segment operating earnings of \$150.3 million in the first nine months of 2012, including \$2.6 million of unfavorable foreign currency effects, increased \$14.8 million, or 10.9%, from 2011 levels. Operating margin for the Repair Systems & Information Group of 22.3% in the first nine months of 2012 increased 250 basis points from 19.8% last year.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(continued)

Financial Services

(Amounts in millions)	September 29, 2012		Three Months Ended October 1, 2011		Change	
Financial services revenue	\$ 40.5	100.0%	\$ 32.7	100.0%	\$ 7.8	23.9%
Financial services expenses	(12.6)	-31.1%	(11.9)	-36.4%	(0.7)	-5.9%
Segment operating earnings	\$ 27.9	68.9%	\$ 20.8	63.6%	\$ 7.1	34.1%

Financial services operating earnings of \$27.9 million on revenue of \$40.5 million in the third quarter of 2012 compares with operating earnings of \$20.8 million on revenue of \$32.7 million last year. The year-over-year increase in both revenue and operating earnings primarily reflects the growth in the company's on-book finance portfolio. Originations of \$179.6 million in the third quarter of 2012 increased \$27.0 million, or 17.7%, from the prior year.

Financial services expenses of \$12.6 million and \$11.9 million in the third quarters of 2012 and 2011, respectively, primarily include personnel-related and other general and administrative costs necessary to service the portfolio of receivables owned by both Snap-on and CIT (collectively, the serviced portfolio). These expenses are generally more dependent on the change in size of the serviced portfolio than they are on the revenue of this segment. Financial services expenses also include doubtful accounts provisions for the finance and contract receivables owned by Snap-on. As a percentage of the average serviced portfolio, financial services expenses were 1.2% in both the third quarters of 2012 and 2011.

See Notes 1 and 2 to the Condensed Consolidated Financial Statements for further information on financial services.

(Amounts in millions)	September 29, 2012		Nine Months Ended October 1, 2011		Change	
Financial services revenue	\$ 118.4	100.0%	\$ 88.8	100.0%	\$ 29.6	33.3%
Financial services expenses	(41.0)	-34.6%	(38.0)	-42.8%	(3.0)	-7.9%
Segment operating earnings before arbitration settlement	77.4	65.4%	50.8	57.2%	26.6	52.4%
Arbitration settlement			18.0	20.3%	(18.0)	NM
Segment operating earnings	\$ 77.4	65.4%	\$ 68.8	77.5%	\$ 8.6	12.5%

NM: Not meaningful

Financial services operating earnings of \$77.4 million on revenue of \$118.4 million in the first nine months of 2012 compares with operating earnings (before arbitration settlement) of \$50.8 million on revenue of \$88.8 million last year. In the first nine months of 2011, operating earnings from financial services of \$68.8 million included the \$18.0 million arbitration settlement gain discussed above. The year-over-year

Edgar Filing: SNAP-ON Inc - Form 10-Q

increase in both revenue and operating earnings (before arbitration settlement) primarily reflects the growth in the company's on-book finance portfolio. Originations of \$511.5 million in the first nine months of 2012 increased \$60.2 million, or 13.3%, from comparable prior-year levels.

Financial services expenses of \$41.0 million and \$38.0 million in the first nine months of 2012 and 2011, respectively, primarily include personnel-related and other general and administrative costs necessary to service the portfolio of receivables owned by both Snap-on and CIT. Financial services expenses also include doubtful accounts provisions for the finance and contract receivables owned by Snap-on. As a percentage of the average serviced portfolio, financial services expenses were 3.9% and 3.8% in the first nine months of 2012 and 2011, respectively.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

See Notes 1 and 2 to the Condensed Consolidated Financial Statements for further information on financial services.

Corporate

Snap-on's general corporate expenses of \$26.9 million in the third quarter of 2012 increased \$12.3 million from \$14.6 million last year primarily due to \$12.2 million of higher mark-to-market expense. As a result of changes in the company's quarter-end stock price, corporate expenses in the third quarter of 2012 included an unfavorable \$4.4 million of expense from mark-to-market adjustments, while corporate expenses in the third quarter of 2011 included a favorable \$7.8 million mark-to-market benefit.

Snap-on's general corporate expenses of \$78.2 million in the first nine months of 2012 increased \$13.8 million from \$64.4 million last year primarily due to \$14.1 million of higher mark-to-market expense. As a result of changes in the company's period-end stock price, corporate expenses in the first nine months of 2012 included an unfavorable \$11.8 million of expense from mark-to-market adjustments, while corporate expenses in the first nine months of 2011 included a favorable \$2.3 million mark-to-market benefit.

Non-GAAP Supplemental Data

The supplemental data is presented for informational purposes to provide readers with insight into the information used by management for assessing the operating performance of Snap-on's non-financial services (Operations) and Financial Services businesses.

The supplemental Operations data reflects the results of operations and financial position of Snap-on's tools, diagnostics, equipment, software and other non-financial services operations with Financial Services on the equity method. The supplemental Financial Services data reflects the results of operations and financial position of Snap-on's U.S. and international financial services operations. The financing needs of Financial Services are met through intersegment borrowings from Snap-on Incorporated and cash generated from operations; Financial Services is charged interest expense on intersegment borrowings at market rates. Long-term debt for Operations includes the company's third party external borrowings, net of intersegment borrowings to Financial Services. Income taxes are charged to Financial Services on the basis of the specific tax attributes generated by the U.S. and international financial services businesses. Transactions between the Operations and Financial Services businesses were eliminated to arrive at the Condensed Consolidated Financial Statements.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(continued)

Supplemental Consolidating Data The supplemental Condensed Statements of Earnings information for the three month periods ended September 29, 2012, and October 1, 2011, are as follows:

(Amounts in millions)	Operations*		Financial Services	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales	\$ 711.6	\$ 697.2	\$	\$
Cost of goods sold	(371.2)	(367.9)		
Gross profit	340.4	329.3		
Operating expenses	(244.2)	(235.0)		
Operating earnings before financial services	96.2	94.3		
Financial services revenue			40.5	32.7
Financial services expenses			(12.6)	(11.9)
Operating earnings from financial services			27.9	20.8
Operating earnings	96.2	94.3	27.9	20.8
Interest expense	(13.3)	(14.8)	(0.3)	(0.3)
Intersegment interest income (expense) net	11.1	9.5	(11.1)	(9.5)
Other income (expense) net	(0.2)	(1.6)		(0.1)
Earnings before income taxes and equity earnings	93.8	87.4	16.5	10.9
Income tax expense	(28.8)	(26.6)	(6.1)	(3.9)
Earnings before equity earnings	65.0	60.8	10.4	7.0
Financial services net earnings attributable to Snap-on Inc.	10.4	7.0		
Equity earnings, net of tax	1.0	2.0		
Net earnings	76.4	69.8	10.4	7.0
Net earnings attributable to noncontrolling interests	(2.3)	(2.0)		
Net earnings attributable to Snap-on Incorporated	\$ 74.1	\$ 67.8	\$ 10.4	\$ 7.0

* Snap-on Incorporated with Financial Services on the equity method.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****(continued)**

Supplemental Consolidating Data The supplemental Condensed Statements of Earnings information for the nine month periods ended September 29, 2012, and October 1, 2011, are as follows:

<i>(Amounts in millions)</i>	Operations*		Financial Services	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales	\$ 2,184.7	\$ 2,117.6	\$	\$
Cost of goods sold	(1,146.7)	(1,115.5)		
Gross profit	1,038.0	1,002.1		
Operating expenses	(739.7)	(721.7)		
Operating earnings before financial services	298.3	280.4		
Financial services revenue			118.4	88.8
Financial services expenses			(41.0)	(38.0)
Operating earnings from financial services before arbitration settlement			77.4	50.8
Arbitration settlement				18.0
Operating earnings from financial services			77.4	68.8
Operating earnings	298.3	280.4	77.4	68.8
Interest expense	(40.5)	(46.7)	(0.9)	(1.0)
Intersegment interest income (expense) net	31.3	26.2	(31.3)	(26.2)
Other income (expense) net	(0.4)		(0.1)	
Earnings before income taxes and equity earnings	288.7	259.9	45.1	41.6
Income tax expense	(91.8)	(82.2)	(16.6)	(15.3)
Earnings before equity earnings	196.9	177.7	28.5	26.3
Financial services net earnings				
attributable to Snap-on Inc.	28.5	26.3		
Equity earnings, net of tax	2.5	3.7		
Net earnings	227.9	207.7	28.5	26.3
Net earnings attributable to noncontrolling interests	(6.4)	(5.7)		
Net earnings attributable to Snap-on Incorporated	\$ 221.5	\$ 202.0	\$ 28.5	\$ 26.3

* Snap-on Incorporated with Financial Services on the equity method.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(continued)

Supplemental Consolidating Data The supplemental Condensed Balance Sheets information as of September 29, 2012, and December 31, 2011, are as follows:

(Amounts in millions)	Operations*		Financial Services	
	September 29, 2012	December 31, 2011	September 29, 2012	December 31, 2011
ASSETS				
Current assets				
Cash and cash equivalents	\$ 171.8	\$ 181.1	\$ 4.3	\$ 4.5
Intersegment receivables	16.4	10.8		
Trade and other accounts receivable net	476.7	463.3	0.2	0.2
Finance receivables net			314.4	277.2
Contract receivables net	6.7	6.5	55.7	43.2
Inventories net	417.5	386.4		
Deferred income tax assets	78.7	90.0	12.6	2.6
Prepaid expenses and other assets	89.0	78.1	0.6	0.9
Total current assets	1,256.8	1,216.2	387.8	328.6
Property and equipment net	370.6	351.9	2.7	1.0
Investment in Financial Services	163.1	142.0		
Deferred income tax assets	120.3	119.8	0.2	5.4
Long-term finance receivables net			481.9	431.8
Long-term contract receivables net	11.1	9.1	181.3	156.0
Goodwill	799.9	795.8		
Other intangibles net	187.5	188.3		
Other assets	93.6	83.7	1.0	1.0
Total assets	\$ 3,002.9	\$ 2,906.8	\$ 1,054.9	\$ 923.8

* Snap-on Incorporated with Financial Services on the equity method.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****(continued)**

Supplemental Consolidating Data Condensed Balance Sheets Information (continued):

	Operations*		Financial Services	
	September 29, 2012	December 31, 2011	September 29, 2012	December 31, 2011
<i>(Amounts in millions)</i>				
LIABILITIES AND EQUITY				
Current liabilities				
Notes payable and current maturities of long-term debt	\$ 18.7	\$ 16.2	\$	\$
Accounts payable	146.8	124.0	0.1	0.6
Intersegment payables			16.4	10.8
Accrued benefits	47.9	48.8		
Accrued compensation	81.0	87.1	2.8	3.9
Franchisee deposits	57.9	47.3		
Other accrued liabilities	240.2	229.7	32.6	31.1
Total current liabilities	592.5	553.1	51.9	46.4
Long-term debt and intersegment long-term debt	155.3	257.6	815.9	710.3
Deferred income tax liabilities	118.0	108.0	1.4	0.1
Retiree health care benefits	49.2	52.8		
Pension liabilities	255.6	317.7		
Other long-term liabilities	76.0	70.3	22.6	25.0
Total liabilities	1,246.6	1,359.5	891.8	781.8
Total shareholders' equity attributable to Snap-on Inc.	1,739.7	1,530.9	163.1	142.0
Noncontrolling interests	16.6	16.4		
Total equity	1,756.3	1,547.3	163.1	142.0
Total liabilities and equity	\$ 3,002.9	\$ 2,906.8	\$ 1,054.9	\$ 923.8

* Snap-on Incorporated with Financial Services on the equity method.

Table of Contents**SNAP-ON INCORPORATED****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****(continued)****Liquidity and Capital Resources**

Snap-on's growth has historically been funded by a combination of cash provided by operating activities and debt financing. Snap-on believes that its cash from operations, coupled with its sources of borrowings and available cash on hand, are sufficient to fund its currently anticipated requirements for new loans originated by SOC, working capital, capital expenditures, restructuring activities, the funding of pension plans, payment of dividends and interest, and funding for additional share repurchases and acquisitions, if any. Due to Snap-on's credit rating over the years, external funds have been available at an acceptable cost. As of the close of business on October 12, 2012, Snap-on's long-term debt and commercial paper were rated, respectively, Baa1 and P-2 by Moody's Investors Service; A- and A-2 by Standard & Poor's; and A- and F2 by Fitch Ratings. Snap-on believes that its current credit arrangements are sound and that the strength of its balance sheet affords the company the financial flexibility to respond to both internal growth opportunities and those available through acquisitions. However, Snap-on cannot provide any assurances of the availability of future financing or the terms on which it might be available, or that its debt ratings may not decrease.

The following discussion focuses on information included in the accompanying Condensed Consolidated Balance Sheets.

As of September 29, 2012, working capital (current assets less current liabilities) of \$1,002.3 million increased \$55.4 million from \$946.9 million as of December 31, 2011 (fiscal 2011 year end).

The following represents the company's working capital position as of September 29, 2012, and December 31, 2011:

<i>(Amounts in millions)</i>	September 29, 2012	December 31, 2011
Cash and cash equivalents	\$ 176.1	\$ 185.6
Trade and other accounts receivable net	476.9	463.5
Finance receivables net	314.4	277.2
Contract receivables net	62.4	49.7
Inventories net	417.5	386.4
Other current assets	176.6	168.3
Total current assets	1,623.9	1,530.7
Notes payable and current maturities of long-term debt	(18.7)	(16.2)
Accounts payable	(146.9)	(124.6)
Other current liabilities	(456.0)	(443.0)
Total current liabilities	(621.6)	(583.8)
Total working capital	\$ 1,002.3	\$ 946.9

Cash and cash equivalents of \$176.1 million as of September 29, 2012, compared to cash and cash equivalents of \$185.6 million at 2011 year end. The \$9.5 million decrease in cash and cash equivalents primarily reflects (i) the continued funding of new loans originated by SOC; (ii) the funding of \$61.0 million of cash contributions, including \$42.7 million of discretionary contributions, to the company's domestic pension plans;

Edgar Filing: SNAP-ON Inc - Form 10-Q

(iii) the repurchase of 967,000 shares of the company's common stock for \$61.8 million; (iv) capital expenditures of \$59.5 million; and (v) dividend payments of \$59.4 million. These year-to-date uses of cash were largely offset by cash generated from operations and \$40.3 million of proceeds from stock purchase and option plans.

Of the \$176.1 million of cash and cash equivalents as of September 29, 2012, \$73.5 million was held outside of the United States. Snap-on considers these non-U.S. funds as permanently invested in its foreign operations to (i) provide adequate working capital; (ii) satisfy various regulatory requirements; and/or (iii) take advantage of business expansion

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

opportunities as they arise; as such, the company does not presently expect to repatriate these funds to fund its U.S. operations or obligations. The repatriation of cash from certain foreign subsidiaries could have adverse net tax consequences on the company should Snap-on be required to pay and record U.S. income taxes and foreign withholding taxes on funds that were previously considered permanently invested. Alternatively, the repatriation of such cash from certain other foreign subsidiaries could result in favorable net tax consequences for the company. Snap-on periodically evaluates opportunities to repatriate certain foreign cash amounts to the extent that it does not incur additional unfavorable net tax consequences.

Trade and other accounts receivable net of \$476.9 million as of September 29, 2012, increased \$13.4 million from 2011 year-end levels; excluding \$3.2 million of currency translation, trade and other accounts receivable net increased \$10.2 million. Days sales outstanding (trade and other accounts receivable net as of the respective period end, divided by the respective trailing 12 months sales, times 360 days) was 59 days as of September 29, 2012, as compared to 58 days at December 31, 2011.

The current portions of net finance and contract receivables of \$376.8 million as of September 29, 2012, compared to \$326.9 million at 2011 year end. The long-term portions of net contract and finance receivables of \$674.3 million as of September 29, 2012, compared to \$596.9 million at 2011 year end. The combined \$127.3 million increase in net current and long-term contract and finance receivables over 2011 year-end levels primarily reflects the continued growth of the company's on-balance-sheet finance portfolio.

Inventories of \$417.5 million as of September 29, 2012, increased \$31.1 million from 2011 year-end levels primarily to support continued higher customer demand, largely in the United States; excluding currency translation, inventories increased \$27.2 million. Inventory turns (trailing 12 months of cost of goods sold, divided by the average of the beginning and ending inventory balance for the trailing 12 months) were 3.8 turns and 4.2 turns as of September 29, 2012, and December 31, 2011, respectively. Inventories accounted for using the first-in, first-out (FIFO) method as of September 29, 2012, and December 31, 2011, approximated 59% and 62%, respectively, of total inventories. All other inventories are accounted for using the last-in, first-out (LIFO) method. The company's LIFO reserve was \$71.5 million and \$70.1 million as of September 29, 2012, and December 31, 2011, respectively.

Notes payable and current maturities of long-term debt of \$18.7 million as of September 29, 2012, compared to \$16.2 million as of 2011 year end.

Accounts payable of \$146.9 million as of September 29, 2012, increased \$22.3 million from 2011 year-end levels primarily due to the timing of payments; excluding currency translation impacts, accounts payable increased \$21.9 million.

Other accrued liabilities of \$266.4 million as of September 29, 2012, increased \$10.5 million from 2011 year-end levels; excluding currency translation impacts, other accrued liabilities increased \$9.2 million.

Long-term debt of \$971.2 million as of September 29, 2012, consisted of (i) \$100 million of unsecured 5.85% notes that mature in March 2014; (ii) \$150 million of unsecured 5.50% notes that mature in 2017; (iii) \$250 million of unsecured 4.25% notes that mature in 2018; (iv) \$200 million of unsecured 6.70% notes that mature in 2019; (v) \$250 million of unsecured 6.125% notes that mature in 2021; and (vi) \$21.2 million of other long-term debt.

Snap-on has a five-year, \$500 million multi-currency revolving credit facility that terminates on December 8, 2016; as of September 29, 2012, no amounts were outstanding under this facility. Borrowings under the \$500 million revolving credit facility bear interest at varying rates based on Snap-on's then-current, long-term debt ratings. The \$500 million revolving credit facility's financial covenant requires that Snap-on maintain, as of each fiscal quarter end, either (i) a ratio of total debt to the sum of total debt plus equity (including noncontrolling interests) of not greater than 0.60 to 1.00; or (ii) a ratio of total debt to the sum of net income plus interest expense, income taxes, depreciation, amortization and other non-cash

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

or extraordinary charges for the preceding four fiscal quarters then ended of not greater than 3.50 to 1.00. As of September 29, 2012, the company's actual ratios of 0.36 and 1.61, respectively, were both within the permitted ranges set forth in this financial covenant.

Snap-on also has a 364-day loan and servicing agreement that allows Snap-on to borrow up to \$200 million (subject to borrowing base requirements) through the pledging of finance receivables under an asset-backed commercial paper conduit facility. On September 28, 2012, as previously reported, the loan and servicing agreement was amended to, among other things, (i) extend the expiration date of the agreement from September 28, 2012, to September 27, 2013 (unless earlier terminated or subsequently extended pursuant to the terms of the agreement); (ii) provide that any amounts remaining outstanding under the agreement as of September 28, 2015, or such earlier date as may be prescribed pursuant to the terms of the agreement, will become due and payable on such date; and (iii) change certain pricing terms. As of September 29, 2012, no amounts were outstanding under the loan and servicing agreement.

In addition to the financial covenant required by the \$500 million multi-currency revolving credit facility, discussed above, Snap-on's debt agreements and credit facilities, including the \$200 million loan and servicing agreement, also contain certain usual and customary borrowing, affirmative, negative and maintenance covenants. As of September 29, 2012, Snap-on was in compliance with all covenants of its debt agreements and credit facilities.

Snap-on believes that it has sufficient available cash and uncommitted lines of credit and liquidity facilities to cover its expected funding needs on both a short-term and long-term basis. Snap-on manages its aggregate short-term borrowings so as not to exceed its availability under its revolving credit facilities. If the need were to arise, Snap-on believes that it could access short-term debt markets, predominantly through commercial paper issuances, securitizations (including its \$200 million loan and servicing agreement discussed above) and existing lines of credit to fund its short-term requirements and to ensure near-term liquidity. Snap-on regularly monitors the credit and financial markets and, in the future, may take advantage of what it believes are favorable market conditions to issue long-term debt to further improve its liquidity and capital resources. Near term liquidity requirements for Snap-on include funding to support new loans originated by SOC, working capital, capital expenditures, restructuring activities, the funding of pension plans, payment of dividends and interest, and funding for additional share repurchases and acquisitions, if any. Snap-on made discretionary cash contributions to its domestic pension plans of \$16.0 million in the third quarter of 2012 and \$20.0 million in the second quarter of 2012. Snap-on also made a \$25.0 million cash contribution to its domestic pension plans in the first quarter of 2012 that included (i) an \$18.3 million 2012 contribution required by law and (ii) a \$6.7 million discretionary cash contribution. Snap-on also intends to make contributions of \$12.6 million to its foreign pension plans in 2012, as required by law. Depending on market and other conditions, Snap-on may elect to make additional discretionary cash contributions to its domestic pension plans in 2012.

Snap-on's long-term financing strategy is to maintain continuous access to the debt markets to accommodate its liquidity needs, including the potential use of commercial paper, securitizations and/or additional fixed-term debt.

The following discussion focuses on information included in the accompanying Condensed Consolidated Statements of Cash Flow.

Operating Activities

Net cash provided by operating activities was \$226.4 million and \$56.2 million in the first nine months of 2012 and 2011, respectively. The \$170.2 million increase in net cash provided by operating activities primarily reflects the impact of net year-over-year changes in operating assets and liabilities, including last year's return of \$89.8 million of cash previously withheld from CIT, and \$20.2 million of higher net earnings in 2012. In the second quarter of 2011, Snap-on recorded an \$18.0 million pretax arbitration settlement gain and paid \$89.8 million of cash to CIT representing \$107.8 million of cash previously withheld net of the \$18.0 million settlement. Net cash provided by operating activities in 2012 also reflects the impact of \$42.7 million of discretionary cash contributions to the company's domestic pension plans.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

Investing Activities

Net cash used by investing activities of \$153.6 million in the first nine months of 2012 included additions to, and collections of, finance receivables of \$426.1 million and \$328.9 million, respectively. Net cash used by investing activities of \$170.2 million in the first nine months of 2011 included additions to, and collections of, finance receivables of \$386.5 million and \$259.7 million, respectively. Finance receivables are comprised of extended-term installment loans to technicians (i.e., franchisees' customers) to enable them to purchase tools, diagnostics and equipment on an extended-term payment plan, generally with average payment terms of 32 months.

Capital expenditures were \$59.5 million and \$46.6 million in the first nine months of 2012 and 2011, respectively. Capital expenditures in 2012 included continued investments related to the company's execution of its strategic value-creation processes around safety, quality, customer connection, innovation and rapid continuous improvement. Capital expenditures in 2012 also included continued spending to support the company's strategic growth initiatives, including the expansion of manufacturing capabilities in emerging growth markets.

Financing Activities

Net cash used by financing activities was \$82.1 million in the first nine months of 2012. Net cash used by financing activities of \$271.6 million in the first nine months of 2011 included the August 15, 2011 repayment of \$200 million of unsecured 6.25% notes upon maturity with available cash.

Proceeds from stock purchase plans and stock option exercises totaled \$40.3 million and \$28.1 million in the first nine months of 2012 and 2011, respectively. Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and dealer stock purchase plans, stock options and other corporate purposes. In the first nine months of 2012, Snap-on repurchased 967,000 shares of its common stock for \$61.8 million under its previously announced share repurchase programs. In the first nine months of 2011, Snap-on repurchased 628,000 shares of its common stock for \$37.4 million. As of September 29, 2012, Snap-on had remaining availability to repurchase up to an additional \$174.1 million in common stock pursuant to its Board of Directors' authorizations. The purchase of Snap-on common stock is at the company's discretion, subject to prevailing financial and market conditions. Snap-on believes that its cash generated from operations, available cash on hand, and funds available from its credit facilities, will be sufficient to fund additional share repurchases, if any, in 2012.

Snap-on has paid consecutive quarterly cash dividends, without interruption or reduction, since 1939. Cash dividends totaled \$59.4 million and \$56.5 million in the first nine months of 2012 and 2011, respectively. In the fourth quarter of fiscal 2011, the company increased the quarterly cash dividend by 6.3% to \$0.34 per share (\$1.36 per share per year). Snap-on believes that its cash generated from operations, available cash on hand and funds available from its credit facilities will be sufficient to pay dividends in 2012.

Off-Balance Sheet Arrangements

The company had no off-balance sheet arrangements as of September 29, 2012.

Critical Accounting Policies and Estimates

The Condensed Consolidated Financial Statements and related notes contain information that is pertinent to management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are generally based on historical experience, current conditions and on various other assumptions that are believed to be reasonable under the

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources, as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates.

The company's significant accounting policies are described above in Note 1 to the Condensed Consolidated Financial Statements, as well as in Note 1 to the Consolidated Financial Statements included in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Snap-on considers the following policies and estimates to be the most critical in understanding the judgments that are involved in the preparation of the company's consolidated financial statements and the uncertainties that could impact the company's financial position, results of operations and cash flows.

Revenue Recognition: Snap-on recognizes revenue from the sale of tools, diagnostics and equipment solutions when contract terms are met, the price is fixed or determinable, collectability is reasonably assured and a product is shipped or risk of ownership has been transferred to and accepted by the customer. For sales contingent upon customer acceptance, revenue recognition is deferred until such obligations are fulfilled. Estimated product returns are recorded as a reduction in reported revenues at the time of sale based upon historical product return experience and gross profit margin adjusted for known trends. Provisions for customer volume rebates, discounts and allowances are also recorded as a reduction of reported revenues at the time of sale based on historical experience and known trends. Revenue related to maintenance and subscription agreements is recognized over the terms of the respective agreements.

Snap-on also recognizes revenue related to multiple element arrangements, including sales of hardware, software and software-related services. When a sales arrangement contains multiple elements, such as hardware and software products and/or services, Snap-on uses the relative selling price method for hardware and related software elements that are essential to the hardware's functionality. For software elements that are not essential to the hardware's functionality and related software post-contract customer support, vendor specific objective evidence (VSOE) of fair value is used to allocate revenue to each element based on its relative fair value and, when necessary, the residual method is used to assign value to the delivered elements when VSOE only exists for the undelivered elements. The amount assigned to future delivery of products or services is recognized when the product is delivered and/or when the services are performed. In instances where the product and/or services are performed over an extended period, as is the case with subscription agreements or the providing of ongoing support, revenue is generally recognized on a straight-line basis over the term of the agreement, which generally ranges from 12 to 60 months.

Franchise Fee Revenue: Franchise fee revenue, including nominal, non-refundable initial fees, is recognized upon the granting of a franchise, which is when the company has performed substantially all initial services required by the franchise agreement. Franchise fee revenue also includes ongoing monthly fees (primarily for sales and business training and marketing and product promotion programs) that are recognized as the fees are earned. Franchise fee revenue totaled \$8.8 million, \$9.0 million and \$8.0 million in fiscal 2011, 2010 and 2009, respectively.

Financial Services Revenue: Snap-on also generates revenue from various financing programs that include (i) loans to franchisees' customers and Snap-on's industrial and other customers for the purchase or lease of tools, equipment and diagnostics products on an extended term payment plan; and (ii) business loans and vehicle leases to franchisees. These financing programs are offered through Snap-on's wholly-owned finance subsidiaries. Financial services revenue consists of finance loan receivable revenue, installment contract revenue and servicing fee income received from CIT. For periods prior to July 2009, financial services revenue also included gains from SOC's sales of originated contracts to CIT. The decision to finance through Snap-on or another financing entity is solely at the election of the customer. When assessing customers for potential financing, Snap-on considers various factors regarding ability to pay including customers' financial condition, collateral, debt-servicing ability, past payment experience and credit bureau information. For finance and contract receivables, Snap-on assesses these factors through the use of credit quality indicators consisting primarily of consumer credit risk scores combined with internal credit risk grades, collection experience and other internal metrics.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

Prior to July 2009, SOC substantially sold all of its loan originations to CIT on a limited recourse basis; SOC retained the right to service such loans for a contractual servicing fee. Contractual servicing fees were \$2.3 million, \$4.9 million and \$8.3 million in fiscal 2011, 2010 and 2009, respectively.

Snap-on's international finance subsidiaries own the loans originated through their financing programs; loans originated by SOC subsequent to July 2009, and loans retained by SOC prior to July 2009, are also owned by Snap-on. Revenue from interest income on the on-book financing portfolio is recognized over the life of the contracts, with interest computed on the average daily balances of the underlying contracts.

Financial Services Lease Arrangements: Snap-on accounts for its Financial Services leases as direct financing or sales-type leases. The company determines the gross investment in the lease as the present value of the minimum lease payments using the interest rate implicit in the lease, net of amounts, if any, included therein for executor costs to be paid by Snap-on, together with any profit thereon. The difference between the gross investment in the lease and the cost of the leased property is reported as unearned finance charges. Unearned finance charges are amortized to income over the life of the contract, with interest computed on the average daily balance of the underlying contract. Snap-on believes that the default covenants included in its lease arrangements are usual and customary and consistent with industry practice.

Impairment of Goodwill and Other Indefinite-lived Intangible Assets: Goodwill and other indefinite-lived intangible assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. Annual impairment tests are performed by the company in the second quarter of each year.

Snap-on evaluates the recoverability of goodwill by estimating the future discounted cash flows of the businesses to which the goodwill relates. Estimated cash flows and related goodwill are grouped at the reporting unit level. The company has determined that its reporting units for testing goodwill impairment are its operating segments or components of an operating segment that constitute a business for which discrete financial information is available and for which segment management regularly reviews the operating results. Within its four reportable operating segments, the company has identified 11 reporting units.

Snap-on evaluates the recoverability of goodwill by utilizing an income approach that estimates the fair value of the future discounted cash flows of the reporting units to which the goodwill relates. The future projections, which are based on both past performance and the projections and assumptions used in the company's operating plans, are subject to change as a result of changing economic and competitive conditions. This approach reflects management's internal outlook at the reporting units, which management believes provides the best determination of value due to management's insight and experience with the reporting unit. Significant estimates used by management in the discounted cash flows methodology include estimates of future cash flows based on expected growth rates, price increases, working capital levels, expected RCI benefits, and a weighted-average cost of capital that reflects the specific risk profile of the reporting unit being tested. The company's methodologies for valuing goodwill are applied consistently on a year-over-year basis; the assumptions used in performing the second quarter 2012 impairment calculations were evaluated in light of current market and business conditions. Snap-on continues to believe that the future discounted cash flow valuation model provides the most reasonable and meaningful fair value estimate based upon the reporting units' projections of future operating results and cash flows and replicates how market participants would value the company's reporting units in an orderly transaction.

In the event the fair value of a reporting unit is less than the carrying value, including goodwill, the company would then perform an additional assessment that would compare the implied fair value of goodwill with the carrying amount of goodwill. The determination of implied fair value of goodwill would require management to compare the estimated fair value of the reporting unit to the estimated fair value of the assets and liabilities of the reporting unit; if necessary, the company may consult with valuation specialists to assist with the assessment of the estimated fair value of the assets and liabilities of the reporting unit. If the implied fair value of the goodwill is less than the carrying value, an impairment loss would be recorded.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

Snap-on also evaluates the recoverability of its indefinite-lived trademarks by utilizing an income approach that estimates the fair value of the future discounted cash flows of each of its trademarks. The future projections, which are based on both past performance and the projections and assumptions used in the company's operating plans, are subject to change as a result of changing economic and competitive conditions. Significant estimates used by management in the discounted cash flows methodology include estimates of future cash flows based on expected growth and royalty rates, expected synergies, and a weighted-average cost of equity that reflects the specific risk profile of the trademark being tested. The company's methodologies for valuing trademarks are applied consistently on a year-over-year basis; the assumptions used in performing the second quarter 2012 impairment calculations were evaluated in light of current market and business conditions. Snap-on continues to believe that the future discounted cash flow valuation model provides the most reasonable and meaningful fair value estimate based upon the trademarks' projected future cash flows and replicates how market participants would value the company's trademarks in an orderly transaction.

Inherent in fair value determinations are significant judgments and estimates, including material assumptions about future revenue, profitability and cash flows, the company's operational plans and its interpretation of current economic indicators. Should the operations of the businesses with which goodwill or other indefinite-lived intangible assets are associated incur significant declines in profitability and cash flow due to significant and long-term deterioration in macroeconomic, industry and market conditions, including in Europe, loss of key customers, changes in technology or markets, significant changes in key personnel or litigation, significant and sustained decrease in share price and/or other events, including effects from the sale or disposal of a reporting unit, some or all of the recorded goodwill or other indefinite-lived intangible assets could be subject to impairment and could result in a material adverse effect on Snap-on's financial position or results of operations.

Snap-on completed its annual impairment testing of goodwill and other indefinite-lived intangible assets in the second quarter of 2012, the results of which did not result in any impairment. As of September 29, 2012, the company has no accumulated impairment losses. Although the company consistently uses the same methods in developing the assumptions and estimates underlying the fair value calculations, such estimates are uncertain by nature and can vary from actual results. In performing its annual impairment testing the company performed a sensitivity analysis on the material assumptions used in the discounted cash flow valuation models for each of its 11 reporting units. Based on the company's second quarter 2012 impairment testing and assuming a hypothetical 10% decrease in the estimated fair values of each of its 11 reporting units, the hypothetical fair value of each of the company's 11 reporting units would have been greater than its carrying value. See Note 4 to the Condensed Consolidated Financial Statements for further information about goodwill and other intangible assets.

Impairment of Long-lived and Amortized Intangible Assets: Snap-on performs impairment evaluations of its long-lived assets, including property, plant and equipment and intangible assets with finite lives, whenever business conditions or events indicate that those assets may be impaired. When the estimated future undiscounted cash flows to be generated by the assets are less than the carrying value of the long-lived assets, the assets are written down to fair market value and a charge is recorded to current operations.

Significant and unanticipated changes in circumstances, such as significant declines in profitability and cash flow due to significant and long-term deterioration in macroeconomic, industry and market conditions, including in Europe, loss of key customers, changes in technology or markets and/or other events, including effects from the sale or disposal of a reporting unit, could require a provision for impairment in a future period.

Allowances for Doubtful Accounts: Snap-on maintains allowances for doubtful accounts to absorb probable losses inherent in its portfolio of receivables. The allowances for doubtful accounts represent management's estimate of the losses inherent in the company's receivables portfolio based on ongoing assessments and evaluations of collectability and historical loss experience. In estimating losses inherent in each of its receivable portfolios (trade, finance and contract receivables), Snap-on uses historical loss experience rates by portfolio and applies them to a related aging analysis. Determination of the proper level of allowances by portfolio requires management to exercise significant judgment about

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

the timing, frequency and severity of credit losses that could materially affect the provision for credit losses and, therefore, net income. The allowances for doubtful accounts takes into consideration numerous quantitative and qualitative factors, by loan type, including historical loss experience, portfolio duration, collection experience, delinquency trends, economic conditions and credit risk quality as follows:

Snap-on evaluates the collectability of receivables based on a combination of various financial and qualitative factors that may affect the customers' ability to pay. These factors may include customers' financial condition, collateral, debt-servicing ability, past payment experience and credit bureau information.

For finance and contract receivables, Snap-on assesses quantitative and qualitative factors through the use of credit quality indicators consisting primarily of customer credit risk scores combined with internal credit risk grades, collection experience and other internal metrics as follows:

- o Credit risk Personal credit risk is monitored regularly on an account by account basis through customer credit scores obtained from major credit bureaus as well as through the use of internal proprietary, custom scoring models used to evaluate each transaction at the time of the application for credit and by periodically updating those credit scores for ongoing monitoring purposes. In addition, Snap-on evaluates credit quality through the use of a loan risk grading measurement system that provides a framework to analyze the finance and contract receivables on the basis of risk factors of the individual obligor as well as transaction specific risk.
- o Collection experience Snap-on conducts monthly reviews of credit and collection performance for each of its finance and contract receivable portfolios focusing on data such as delinquency trends, non-performing assets, charge-off and recovery activity. These reviews allow for the formulation of collection strategies and potential collection policy modifications in response to changing risk profiles in the finance and contract receivable portfolios.
- o Other internal metrics Snap-on maintains a system that aggregates credit exposure by customer, industry, risk classification and geographical area, among other factors, to further monitor changing risk profiles.

Management performs detailed reviews of its receivables on a monthly and/or quarterly basis to assess the adequacy of the allowances based on historical and current trends and other factors affecting credit losses and to determine if any impairment has occurred. A receivable is impaired when it is probable that all amounts related to the receivable will not be collected according to the contractual terms of the loan agreement. In circumstances where the company is aware of a specific customer's inability to meet its financial obligations, a specific reserve is recorded against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Additions to the allowances for doubtful accounts are maintained through adjustments to the provision for credit losses, which are charged to current period earnings; amounts determined to be uncollectable are charged directly against the allowances, while amounts recovered on previously charged-off accounts increase the allowances. Net charge-offs include the principal amount of losses charged-off as well as charged-off interest and fees. Recovered interest and fees previously charged-off are recorded through the allowances for doubtful accounts. Finance receivables are assessed for charge-off when an account becomes 120 days past due and are charged-off typically within 60 days of asset repossession. Contract receivables related to equipment leases are generally charged-off when an account becomes 150 days past due while contract receivables related to franchise finance and van leases are generally charged-off up to 180 days past the asset return. For finance and contract receivables, customer bankruptcies are generally charged-off upon notification that the associated debt is not being reaffirmed or, in any event, no later than 180 days past due.

Edgar Filing: SNAP-ON Inc - Form 10-Q

Snap-on does not believe that trade accounts, finance or contract receivables represent significant concentrations of credit risk because of the diversified portfolio of individual customers and geographical areas. See Note 2 to the Condensed Consolidated Financial Statements for further information on allowances for doubtful accounts.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

Excess and Obsolete Inventory: Snap-on records allowances for excess and obsolete inventory based on historical and estimated future demand and market conditions. Allowances for raw materials are largely based on an analysis of raw material age and actual physical inspection of raw material for fitness for use. As part of evaluating the adequacy of allowances for work-in-progress and finished goods, management reviews individual product stock-keeping units (SKUs) by product category and product life cycle. Cost adjustments for each product category/product life-cycle state are generally established and maintained based on a combination of historical experience, forecasted sales and promotions, technological obsolescence, inventory age and other actual known conditions and circumstances. Should actual product marketability and raw material fitness for use be affected by conditions that are different from management estimates, further adjustments to inventory allowances may be required.

Pension Benefits: The pension benefit obligation and related pension expense are calculated in accordance with U.S. GAAP and are impacted by certain actuarial assumptions. Changes in these assumptions are primarily influenced by factors outside of Snap-on's control and can have a significant effect on the amounts reported in the financial statements. Snap-on believes that the two most critical assumptions are (i) the expected return on plan assets; and (ii) the assumed discount rate.

Pension expense increases as the expected rate of return on plan assets decreases. Lowering the expected rate of return assumption for Snap-on's domestic pension plan assets by 50 basis points would have increased Snap-on's 2011 domestic pension expense by approximately \$3.2 million. Snap-on uses a three-year, market-related value asset method of amortizing the difference between actual and expected returns on its domestic plan assets.

The objective of Snap-on's discount rate assumption is to reflect the rate at which the pension benefits could be effectively settled. In making this determination, the company takes into account the timing and amount of benefits that would be available under the plans. The methodology for selecting the discount rate as of 2011 and 2010 year end was to match the plan's cash flows to that of a theoretical bond portfolio yield curve that provides the equivalent yields on zero-coupon bonds with an AA rating or better for each maturity. The selection of the 4.5% weighted-average discount rate for Snap-on's domestic pension plans represents the single rate that produces the same present value of cash flows as the estimated benefit plan payments. Lowering Snap-on's domestic discount rate assumption by 50 basis points would have increased Snap-on's 2011 domestic pension expense and projected benefit obligation by approximately \$5.2 million and \$57.4 million, respectively. At 2011 year end, Snap-on's domestic projected benefit obligation comprised approximately 83% of Snap-on's worldwide projected benefit obligation. The weighted-average discount rate for Snap-on's foreign pension plans of 4.7% represents the single rate that produces the same present value of cash flows as the estimated benefit plan payments. Lowering Snap-on's foreign discount rate assumption by 50 basis points would have increased Snap-on's 2011 foreign pension expense and projected benefit obligation by approximately \$1.7 million and \$18.4 million, respectively.

Actuarial gains and losses in excess of 10 percent of the greater of the projected benefit obligation or market-related value of assets are amortized on a straight-line basis over the average remaining service period of active participants. Prior service costs resulting from plan amendments are amortized in equal annual amounts over the average remaining service period of affected active participants or over the remaining life expectancy of affected retired participants. See Note 9 to the Condensed Consolidated Financial Statements for further information on pension plans.

Postretirement Benefits: Snap-on's postretirement benefits obligation and related expense are calculated in accordance with U.S. GAAP and are impacted by certain actuarial assumptions, including health care trend rates. As of 2011 year end, an increase of one percentage point in health care costs would increase the accumulated postretirement benefit obligation by \$1.7 million and the combined annual service and interest cost by \$0.1 million. A corresponding decrease of one percentage point would decrease the accumulated postretirement benefit by \$1.5 million and the combined annual service and interest cost by \$0.1 million. See Note 10 to the Condensed Consolidated Financial Statements for further information on postretirement plans.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

Income Taxes: Snap-on records deferred income tax assets and liabilities for differences between the book basis and tax basis of the related net assets. Snap-on records a valuation allowance, when appropriate, to reduce its deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. While the company has considered future taxable income and ongoing prudent and feasible tax strategies in assessing the need for the valuation allowance, if these estimates and assumptions change in the future, the company may be required to adjust its valuation allowance. This could result in a charge to, or an increase in, income in the period such determination is made.

In addition, the company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The company records accruals for the estimated outcomes of these audits and the accruals may change in the future due to new developments in each matter. See Note 6 to the Condensed Consolidated Financial Statements for further information on income taxes.

Outlook

Snap-on expects to continue with its planned strategic investments to enhance its mobile tool distribution network, expand in the vehicle repair garage, extend to critical industries and build in emerging markets. As a result of these initiatives, Snap-on anticipates that capital expenditures in 2012 will be in a range of \$75 million to \$80 million, of which \$59.5 million was spent in the first nine months of 2012. Snap-on anticipates that its full year 2012 effective income tax rate will approximate 33.2%.

Table of Contents

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Market, Credit and Economic Risks

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. Snap-on is exposed to market risk from changes in both foreign currency exchange rates and interest rates. Snap-on monitors its exposure to these risks and attempts to manage the underlying economic exposures through the use of financial instruments such as foreign currency forward contracts, interest rate swap agreements and treasury lock agreements. Snap-on does not use derivative instruments for speculative or trading purposes. Snap-on's broad-based business activities help to reduce the impact that volatility in any particular area or related areas may have on its operating earnings as a whole. Snap-on's management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks.

Foreign Currency Risk Management

Snap-on has significant international operations and is subject to certain risks inherent with foreign operations that include currency fluctuations and restrictions on movement of funds. Foreign exchange risk exists to the extent that Snap-on has payment obligations or receipts denominated in currencies other than the functional currency. To manage these exposures, Snap-on identifies naturally offsetting positions and then purchases hedging instruments to protect the residual net exposures. See Note 8 to the Condensed Consolidated Financial Statements for information on foreign currency risk management.

Interest Rate Risk Management

Snap-on aims to control funding costs by managing the exposure created by the differing maturities and interest rate structures of Snap-on's assets and liabilities through the use of interest rate swap agreements. Treasury lock agreements are used to manage potential changes in interest rates in anticipation of the issuance or sale of certain financial instruments. See Note 8 to the Condensed Consolidated Financial Statements for information on interest rate risk management.

Snap-on utilizes a Value-at-Risk (VAR) model to determine the potential one-day loss in the fair value of its interest rate and foreign exchange-sensitive financial instruments from adverse changes in market factors. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Snap-on's computations are based on the inter-relationships among movements in various currencies and interest rates (variance/co-variance technique). These inter-relationships were determined by observing interest rate and foreign currency market changes over the preceding quarter.

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, as of September 29, 2012, was \$1.4 million on interest rate-sensitive financial instruments and \$0.7 million on foreign currency-sensitive financial instruments. The VAR model is a risk management tool and does not purport to represent actual losses in fair value that will be incurred by Snap-on, nor does it consider the potential effect of favorable changes in market factors.

Credit Risk

Credit risk is the possibility of loss from a customer's failure to make payments according to contract terms. Prior to granting credit, each customer is evaluated, taking into consideration the borrower's financial condition, collateral, debt-servicing capacity, past payment experience, credit bureau information, and other financial and qualitative factors that may affect the borrower's ability to repay. Credit risk is also monitored regularly through the use of internal proprietary, custom scoring models used to evaluate each transaction at the time of the application for credit and by periodically updating those credit scores for ongoing monitoring purposes. Snap-on evaluates credit quality through the use of an internal proprietary measuring system that provides a framework to analyze finance and contract receivables on the basis of risk factors of the individual obligor as well as transaction specific risk. Loans that have been granted are typically monitored through an asset quality review process that closely monitors past due accounts and initiates a progressive collection action process when appropriate. In addition to its direct credit risk exposure, Snap-on also has credit risk exposure for certain SOC-originated contracts with recourse provisions related to franchisee van loans sold by SOC; as of September 29, 2012, \$13.4 million of franchisee van loans contain a recourse provision to Snap-on if the loans become more than 90 days past due.

Table of Contents

Counterparty Risk

Snap-on is exposed to credit losses in the event of non-performance by the counterparties to various financial agreements, including its foreign currency forward contracts, interest rate swap agreements and treasury lock agreements. Snap-on does not obtain collateral or other security to support financial instruments subject to credit risk, but monitors the credit standing of the counterparties and enters into agreements generally with financial institution counterparties with a credit rating of A- or better. Snap-on does not anticipate non-performance by its counterparties, but cannot provide assurances.

Economic Risk

Economic risk is the possibility of loss resulting from economic instability in certain areas of the world. Snap-on continually monitors its exposure in these markets.

As a result of the above market, credit and economic risks, net income and revenues in any particular period may not be representative of full-year results and may vary significantly from year to year and from quarter to quarter. Inflation has not had a significant impact on the company.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Snap-on maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that material information relating to the company and its consolidated subsidiaries is timely communicated to the officers who certify Snap-on's financial reports and to other members of senior management and the Board, as appropriate.

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the company's management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 29, 2012. Based upon their evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 29, 2012, to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control

There has not been any change in the company's internal control over financial reporting during the quarter ended September 29, 2012, that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)).

Table of Contents**PART II. OTHER INFORMATION****Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

The following chart discloses information regarding the shares of Snap-on's common stock repurchased by the company during the third quarter of fiscal 2012, all of which were purchased pursuant to the Board's authorizations that the company has publicly announced. Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and dealer stock purchase plans, stock options and other corporate purposes, as well as to repurchase shares when the company believes market conditions are favorable. The repurchase of Snap-on common stock is at the company's discretion, subject to prevailing financial and market conditions.

Issuer Purchases of Equity Securities

Period	Number of Shares Purchased	Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Value of Shares that May Yet be Purchased Under the Plans or Programs*
07/01/12 to 07/28/12	20,000	\$ 66.54	20,000	\$ 183.5 million
07/29/12 to 08/25/12	273,000	\$ 68.68	273,000	\$ 169.6 million
08/26/12 to 09/29/12	51,000	\$ 69.67	51,000	\$ 174.1 million
Total/Average	344,000	\$ 68.70	344,000	N/A

*Subject to further adjustment pursuant to the 1996 Authorization described below, as of September 29, 2012, the approximate value of shares that may yet be purchased pursuant to the three outstanding Board authorizations discussed below is \$174.1 million.

In 1996, the Board authorized the company to repurchase shares of the company's common stock from time to time in the open market or in privately negotiated transactions (the 1996 Authorization). The 1996 Authorization allows the repurchase of up to the number of shares issued or delivered from treasury from time to time under the various plans the company has in place that call for the issuance of the company's common stock. Because the number of shares that are purchased pursuant to the 1996 Authorization will change from time to time as (i) the company issues shares under its various plans; and (ii) shares are repurchased pursuant to this authorization, the number of shares authorized to be repurchased will vary from time to time. The 1996 Authorization will expire when terminated by the Board. When calculating the approximate value of shares that the company may yet purchase under the 1996 Authorization, the company assumed prices of \$70.20, \$69.96 and \$71.87 per share of common stock as of the end of the fiscal 2012 months ended July 28, August 25, and September 29, respectively.

In 1998, the Board authorized the repurchase of an aggregate of \$100 million of the company's common stock (the 1998 Authorization). The 1998 Authorization will expire when the aggregate repurchase price limit is met, unless terminated earlier by the Board.

In 1999, the Board authorized the repurchase of an aggregate of \$50 million of the company's common stock (the 1999 Authorization). The 1999 Authorization will expire when the aggregate repurchase price limit is met, unless terminated earlier by the Board.

Table of Contents

Item 6: Exhibits

Exhibit 31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
Exhibit 32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document*
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document*
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Earnings for the three and nine months ended September 29, 2012, and October 1, 2011; (ii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 29, 2012, and October 1, 2011; (iii) Condensed Consolidated Balance Sheets as of September 29, 2012, and December 31, 2011; (iv) Condensed Consolidated Statements of Equity for the nine months ended September 29, 2012, and October 1, 2011; (v) Condensed Consolidated Statements of Cash Flow for the nine months ended September 29, 2012, and October 1, 2011; and (vi) Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Snap-on Incorporated has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SNAP-ON INCORPORATED

Date: October 18, 2012

/s/ Aldo J. Pagliari

Aldo J. Pagliari, Principal Financial Officer,
Senior Vice President Finance and
Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit No.

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Earnings for the three and nine months ended September 29, 2012, and October 1, 2011; (ii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 29, 2012, and October 1, 2011; (iii) Condensed Consolidated Balance Sheets as of September 29, 2012, and December 31, 2011; (iv) Condensed Consolidated Statements of Equity for the nine months ended September 29, 2012, and October 1, 2011; (v) Condensed Consolidated Statements of Cash Flow for the nine months ended September 29, 2012, and October 1, 2011; and (vi) Notes to Condensed Consolidated Financial Statements.