SNAP ON INC
Form 10-Q
April 24, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

OR

o 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 x No o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

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 April 20, 2007**
Common Stock, $1.00 par value	57,974,406 shares

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions, except per share data)

(Unaudited)

	Three Months Ended March 31, 2007	April 1, 2006
Net sales	$ 709.7	$ 593.5
Cost of goods sold	(397.8)	(333.2)
Gross profit	311.9	260.3
Financial services revenue	13.4	11.2
Financial services expenses	(9.7)	(9.2)
Operating income from financial services	3.7	2.0
Operating expenses	(245.9)	(222.9)
Operating earnings	69.7	39.4
Interest expense	(11.3)	(4.4)
Other income (expense) net	0.2	(1.2)
Earnings before income taxes	58.6	33.8
Income tax expense	(19.6)	(11.7)
Net earnings	$ 39.0	$ 22.1
Earnings per share:		
Basic	$ 0.67	$ 0.38
Diluted	$ 0.66	$ 0.37
Weighted-average shares outstanding:		
Basic	58.2	58.2
Effect of dilutive options	0.8	0.9
Diluted	59.0	59.1
Dividends declared per common share	$ 0.27	$ 0.27

See notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	March 31, 2007	December 30, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 61.3	$ 63.4
Accounts receivable net of allowances	567.9	559.2
Inventories	326.9	323.0
Deferred income tax benefits	71.5	76.0
Prepaid expenses and other assets	100.8	91.6
Total current assets	1,128.4	1,113.2
Property and equipment		
Land	24.6	24.3
Buildings and improvements	238.1	236.7
Machinery and equipment	546.1	540.9
	808.8	801.9
Accumulated depreciation and amortization	(512.0)	(504.8)
Property and equipment net	296.8	297.1
Deferred income tax benefits	61.9	55.3
Goodwill	781.1	776.1
Other intangibles net	245.7	257.8
Pension assets	14.1	14.0
Other assets	152.4	141.0
Total assets	$ 2,680.4	$ 2,654.5

See notes to Condensed Consolidated Financial Statements

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	March 31, 2007	December 30, 2006
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	$ 193.3	$ 178.8
Notes payable and current maturities of long-term debt	60.3	43.6
Accrued benefits	45.5	41.4
Accrued compensation	67.7	90.4
Franchisee deposits	46.0	48.5
Deferred subscription revenue	32.1	25.3
Income taxes	23.4	37.8
Other accrued liabilities	218.5	216.2
Total current liabilities	686.8	682.0
Long-term debt	503.9	505.6
Deferred income taxes	82.2	88.9
Retiree health care benefits	68.7	69.6
Pension liabilities	116.7	113.9
Other long-term liabilities	128.9	118.2
Total liabilities	1,587.2	1,578.2
Shareholders equity		
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 67,088,781 and 67,081,801 shares)	67.1	67.1
Additional paid-in capital	122.0	121.9
Retained earnings	1,203.3	1,180.3
Accumulated other comprehensive income (loss)	27.1	21.2
Grantor Stock Trust at fair market value (8,150 and 407,485 shares)	(0.4)	(19.4)
Treasury stock at cost (9,128,482 and 8,503,482 shares)	(325.9)	(294.8)
Total shareholders equity	1,093.2	1,076.3
Total liabilities and shareholders equity	$ 2,680.4	$ 2,654.5

See notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Three Months Ended March 31, 2007	April 1, 2006
Operating activities:		
Net earnings	$ 39.0	$ 22.1
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	12.1	12.0
Amortization of other intangibles	4.4	0.5
Stock-based compensation expense	3.9	3.3
Excess tax benefits from stock-based compensation	(2.2)	(3.4)
Deferred income tax benefits	(3.2)	(2.9)
Gain on sale of assets	(0.1)	(0.7)
Loss on mark to market for cash flow hedges		0.1
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(5.5)	(27.0)
(Increase) decrease in inventories	(3.0)	(9.6)
(Increase) decrease in prepaid and other assets	(15.9)	(14.3)
Increase (decrease) in accounts payable	12.5	26.6
Increase (decrease) in accruals and other liabilities	(15.0)	20.8
Net cash provided by operating activities	27.0	27.5
Investing activities:		
Capital expenditures	(13.3)	(10.7)
Proceeds from disposal of property and equipment	1.9	2.5
Net cash used in investing activities	(11.4)	(8.2)
Financing activities:		
Proceeds from issuance of long-term debt	298.5	
Net increase (decrease) in short-term borrowings	(285.5)	6.0
Purchase of treasury stock	(31.2)	(26.0)
Proceeds from stock purchase and option plans	13.8	25.4
Excess tax benefits from stock-based compensation	2.2	3.4
Cash dividends paid	(15.9)	(15.8)
Net cash used in financing activities	(18.1)	(7.0)
Effect of exchange rate changes on cash and cash equivalents	0.4	0.2
Increase (decrease) in cash and cash equivalents	(2.1)	12.5
Cash and cash equivalents at beginning of year	63.4	170.4
Cash and cash equivalents at end of period	$ 61.3	$ 182.9
Supplemental cash flow disclosures:		
Cash paid for interest	$ (10.3)	$ (7.1)
Net cash refunded (paid) for income taxes	3.4	(4.2)

See notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Condensed Consolidated Financial Statements

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 Incorporated s (Snap-on or the company) 2006 Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

The condensed consolidated financial statements include the accounts of Snap-on, its majority-owned subsidiaries and Snap-on Credit LLC (SOC), a 50%-owned joint venture with The CIT Group, Inc. (CIT). The condensed consolidated financial statements do not include the accounts of the company s independent franchisees. All intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified on the Condensed Consolidated Statements of Cash Flows to conform to the current year presentation.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the statement of financial condition and results of operations for the three month periods ended March 31, 2007, and April 1, 2006, have been made. The interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year.

2. New Accounting Standards

Effective December 30, 2006, the last day of the 2006 fiscal year, Snap-on adopted the recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 158 (SFAS No. 158), *Employers Accounting for Defined Benefit Pension and Postretirement Plans: an amendment of FASB Statements No. 87, 88, 106, and 132(R).* SFAS No. 158 requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, and also requires an employer to initially apply the requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position for fiscal years ending after December 15, 2008. As the company uses the last day of its fiscal year-end as the measurement date for its plans, the adoption of the measurement provisions of SFAS No. 158 will not have a material impact on the company s consolidated financial position and results of operations. Retrospective application of the recognition and fiscal year-end measurement date provisions of SFAS No. 158 is not permitted. See Notes 11 and 12 for information on pension and postretirement plans.

Effective December 31, 2006, the first day of fiscal 2007, Snap-on adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109.* See Note 8 for additional information regarding income taxes.

Effective December 31, 2006, the first day of fiscal 2007, Snap-on adopted SFAS No. 156, *Accounting for Servicing of Financial Assets,* to simplify accounting for separately recognized servicing assets and servicing liabilities. The adoption of SFAS No. 156 did not have a material impact on the company s consolidated financial position and results of operations.

The FASB released SFAS No. 157, *Fair Value Measurements,* to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for Snap-on as of December 30, 2007, the beginning

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

of the company s fiscal-2008 year. The company is currently evaluating the impact of adopting SFAS No. 157 on the company s consolidated financial position and results of operations.

In February 2007, the FASB released SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 allows companies to choose to elect, at specified dates, to measure eligible financial instruments at fair value. Companies shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for companies that have also elected to apply the provisions of SFAS No. 157, *Fair Value Measurements*. Companies are prohibited from retrospectively applying SFAS No. 159 unless they choose to early adopt both SFAS No. 157 and SFAS No. 159. SFAS No. 159 also applies to eligible items existing at November 15, 2007 (or early adoption date). Snap-on is currently evaluating the impact of adopting SFAS No. 159 on the company s consolidated financial position and results of operations.

3. Acquisitions

On November 28, 2006, Snap-on acquired the ProQuest Business Solutions business and certain net assets (collectively, Snap-on Business Solutions or Business Solutions, and formerly ProQuest Business Solutions) from ProQuest Company for a preliminary purchase price of $516 million of cash (including an estimated $8 million of transaction costs) and the assumption of approximately $19 million of debt. The preliminary purchase price allocation is based upon the estimated fair values of the assets and liabilities acquired, and are subject to change upon the finalization of income tax matters and the working capital adjustment that is expected to be finalized in the second quarter of 2007.

The intangible assets consist of $163.6 million of customer-related assets with a 16 year average life and $20.7 million of developed technology with a five year average life.

4. Accounts Receivable

Accounts receivable include trade accounts, installment and other receivables, including the current portion of franchisee-financing receivables. The components of Snap-on s current accounts receivable were as follows:

(Amounts in millions)	**March 31, 2007**	**December 30, 2006**
Trade accounts receivable	$ 490.5	$ 477.6
Installment receivables, net of unearned finance charges of $7.3 million in both periods	63.6	62.4
Other accounts receivable	46.0	52.1
Total	600.1	592.1
Allowance for doubtful accounts	(32.2)	(32.9)
Total accounts receivable net	$ 567.9	$ 559.2

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The long-term portion of accounts receivable is classified in Other assets on the accompanying Condensed Consolidated Balance Sheets and is comprised of installment and other receivables, including franchisee-financing receivables, with payment terms that are due beyond one year. The components of Snap-on s long-term accounts receivable were as follows:

(Amounts in millions)	March 31, 2007	December 30, 2006
Installment receivables, net of unearned finance charges of $9.1 million and $9.2 million	$ 42.3	$ 42.6
Other long-term accounts receivable	27.9	28.3
Total	$ 70.2	$ 70.9

5. Inventories

Inventories by major classification were as follows:

(Amounts in millions)	March 31, 2007	December 30, 2006
Finished goods	$ 308.4	$ 310.4
Work in progress	37.5	35.2
Raw materials	67.7	64.1
Total FIFO value	413.6	409.7
Excess of current cost over LIFO cost	(86.7)	(86.7)
Total inventories	$ 326.9	$ 323.0

Inventories accounted for using the first-in, first-out (FIFO) method as of March 31, 2007, and December 30, 2006, approximated 66% and 62% of total inventories. The company accounts for its non-U.S. inventory on the FIFO method. As of March 31, 2007, approximately 37% of the company s U.S. inventory was accounted for using the FIFO basis and 63% was accounted for using the last-in, first-out (LIFO) method. LIFO inventory liquidations resulted in a reduction of Cost of goods sold on the accompanying Condensed Consolidated Statements of Earnings of $1.5 million for the three month period ended April 1, 2006. There were no LIFO inventory liquidations for the three month period ended March 31, 2007.

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Acquired Intangible Assets

Disclosures related to other intangible assets are as follows:

(Amounts in millions)	March 31, 2007 Gross Carrying Value	Accumulated Amortization	December 30, 2006 Gross Carrying Value	Accumulated Amortization
Amortized other intangible assets:				
Customer relationships	$ 164.5	$ (3.4)	$ 164.6	$ (0.9)
Developed technology	21.0	(1.7)	28.3	(0.4)
Patents	32.6	(16.3)	32.5	(15.8)
Trademarks	2.7	(0.9)	2.8	(0.9)
Other	0.7	(0.3)	0.7	(0.3)
Total	221.5	(22.6)	228.9	(18.3)
Non-amortized trademarks	46.8		47.2	
Total	$ 268.3	$ (22.6)	$ 276.1	$ (18.3)

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

(*In years*)	Weighted-average Amortization
Customer relationships	16
Developed technology	5
Patents	16
Trademarks	39
Other	2

The weighted-average amortization period for all amortizable intangibles on a combined basis is 16 years.

Amortization expense was $4.4 million for the three month period ended March 31, 2007, and $0.5 million for the three month period ended April 1, 2006. Total estimated annual amortization expense is expected to be $17.0 million in 2007, and for each of the next five fiscal years, based on current levels of amortized intangible assets.

Goodwill was $781.1 million and $776.1 million at March 31, 2007, and December 30, 2006. The increase in goodwill from year-end 2006 levels primarily resulted from currency translation and $2.9 million of purchase accounting adjustments related to the Business Solutions acquisition.

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Exit or Disposal Activities

Snap-on recorded costs associated with exit and disposal activities of $8.2 million and $5.1 million during the three month periods ended March 31, 2007, and April 1, 2006.

(Amounts in millions)	Three Months Ended March 31, 2007	April 1, 2006
Exit and disposal costs:		
Cost of goods sold	$ 5.7	$ 1.9
Operating expenses	2.5	3.1
Financial services expenses		0.1
Total exit and disposal costs	$ 8.2	$ 5.1

Of the $8.2 million of costs incurred during the three month period ended March 31, 2007, $4.4 million qualified for accrual treatment. Costs associated with exit and disposal activities in 2007 primarily related to headcount reductions from (i) the closure of a facility in Austria; (ii) the transfer of certain production activities from Sweden to lower-cost regions and emerging markets; (iii) the mid-2007 closure of the Johnson City, Tennessee, hand tool facility; (iv) the consolidation of multiple customer call centers in the United States; and (v) various management realignment actions at other Snap-on facilities.

Snap-on s exit and disposal accrual activity for the quarter ended March 31, 2007, was as follows:

(Amounts in millions)	Balance at December 30, 2006	First Quarter Additions	Usage	Balance at March 31, 2007
Severance costs:				
Snap-on Tools	$ 2.3	$ 1.4	$ (0.3)	$ 3.4
Commercial & Industrial	2.4	2.1	(1.4)	3.1
Diagnostics & Information	0.3	0.3	(0.3)	0.3
Corporate	0.3	0.5	(0.2)	0.6
Facility-related costs:				
Snap-on Tools	0.2		(0.1)	0.1
Diagnostics & Information	0.3	0.1		0.4
Corporate	0.2			0.2
Total	$ 6.0	$ 4.4	$ (2.3)	$ 8.1

Exit and disposal accrual usage of $2.3 million during the first quarter of 2007 consisted primarily of severance and related payments. Since year-end 2006, Snap-on has reduced headcount by approximately 60 employees as part of its restructuring actions. While the majority of the exit and disposal costs will be utilized in 2007, certain severance and facility-related costs will extend beyond 2007 primarily due to longer-term severance and lease obligations.

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Snap-on expects to fund the remaining cash requirements of its exit and disposal activities with 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.

8. Income Taxes

The company adopted FIN No. 48, *Accounting for Uncertainty in Income Taxes,* on December 31, 2006, the beginning of the company s 2007 fiscal year. As of December 31, 2006, the company had unrecognized tax benefits of $23.5 million. Snap-on did not record any cumulative effect adjustment to retained earnings as a result of adopting FIN No. 48.

Of the $23.5 million of unrecognized tax benefits, $21.0 million would impact the effective income tax rate if recognized. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. As of December 31, 2006, the company had $2.2 million of accrued interest included in the $23.5 million of unrecognized tax benefits.

Snap-on believes it is reasonably possible that, within the next 12 months, $1.8 million of previously unrecognized tax benefits will be recorded primarily as a result of the resolution of tax positions in a non-U.S. jurisdiction.

With few exceptions, Snap-on is no longer subject to U.S. federal, state/local, or non-U.S. income tax examinations by tax authorities for years prior to 2003, 2002 and 1998, respectively.

Snap-on s effective tax rate was 33.4% in the first quarter of 2007, as compared with 34.5% in the first quarter of 2006. The company s effective tax rate in 2007 was favorably impacted by the resolution of previously unrecognized tax benefits in a non-U.S. jurisdiction. The company does not believe any additional material adjustments will be made related to unrecognized tax benefits for the remainder of 2007.

9. Short-term and Long-term Debt

Notes payable and long-term debt at March 31, 2007, was $564.2 million, including $40.0 million of commercial paper. As of December 30, 2006, notes payable and long-term debt was $549.2 million, including $314.9 million of commercial paper. On January 12, 2007, Snap-on sold $300 million in floating and fixed rate notes consisting of $150 million of floating rate notes that mature in their entirety on January 12, 2010, and $150 million of fixed rate notes that mature in their entirety on January 15, 2017. Interest on the floating rate notes accrue at a floating rate equal to the three-month London Interbank offer rate plus 0.13% per year; interest is to be paid quarterly beginning April 12, 2007. Interest on the fixed rate notes accrue at a rate of 5.50% per year; interest is to be paid semi-annually beginning July 15, 2007. Snap-on used the proceeds, net of $1.5 million of transaction costs, from the sale of the notes to repay commercial paper obligations issued to finance the acquisition of Business Solutions. On January 12, 2007, the company also terminated the $250 million bridge credit agreement that Snap-on established prior to its acquisition of Business Solutions.

Long-term debt of $503.9 million as of March 31, 2007, includes $200 million of unsecured 6.25% notes, $150 million of unsecured 5.50% notes, $150 million of unsecured floating rate notes, and $3.9 million of other long-

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

term debt. Notes payable to banks under uncommitted lines of credit were $20.3 million at March 31, 2007, and $28.6 million at December 30, 2006. CIT and Snap-on have agreed to lend funds to support SOC s working capital requirements on a 50/50 basis. As of December 30, 2006, SOC owed both Snap-on and CIT $0.1 million to support SOC s working capital requirements; no amounts were owed by SOC pursuant to the working capital agreement as of March 31, 2007.

At March 31, 2007, Snap-on had a $400 million multi-currency revolving credit facility that terminates on July 27, 2009. The $400 million credit facility s financial covenant requires that Snap-on maintain a ratio of debt to the sum of total debt plus shareholders equity of not greater than 0.60 to 1.00. As of March 31, 2007, Snap-on was in compliance with all covenants of its revolving credit facility.

At March 31, 2007, Snap-on also had $20 million of unused committed bank lines of credit, of which $10 million expires on July 29, 2007, and $10 million expires on August 31, 2007. At March 31, 2007, Snap-on had approximately $380 million of unused available debt capacity under the terms of its revolving credit facility and its committed bank lines of credit.

10. Financial Instruments

Snap-on uses derivative instruments to manage well-defined interest rate and foreign currency exposures. Snap-on does not use derivative instruments for speculative or trading purposes. 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 obligation. 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 values of the hedged item.

Foreign Currency Derivative Instruments: Snap-on has operations in a number of countries that have transactions outside their functional currencies and, as a result, is exposed to changes in foreign currency exchange rates. Snap-on also has intercompany loans to foreign subsidiaries denominated in foreign currencies. Snap-on manages most of these exposures on a consolidated basis, which allows for netting of certain exposures to take advantage of natural offsets. Forward exchange contracts 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.

At March 31, 2007, Snap-on had $116.0 million of net foreign exchange forward buy contracts outstanding comprised of buy contracts of $46.3 million in Swedish kronor, $34.7 million in British pounds, $33.3 million in euros, $11.6 million in Australian dollars, and $4.3 million in other currencies, and sell contracts of $9.0 million in Canadian dollars, $2.0 million in Hungarian forint and $3.2 million in other currencies. At December 30, 2006, Snap-on had $80.1 million of net foreign exchange forward buy contracts outstanding comprised of buy contracts of $31.4 million in Swedish kronor, $23.1 million in euros, $17.8 million in British pounds, $10.9 million in Australian dollars, $2.3 million in Japanese yen, $2.1 million in Norwegian kroner, and $3.4 million in other currencies, and sell contracts of $7.0 million in Canadian dollars and $3.9 million in other currencies.

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The majority of Snap-on s forward exchange contracts are not designated as hedges under SFAS No. 133. 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.

Interest Rate Swap Agreements: Snap-on enters into interest rate swap agreements to manage interest costs and risks associated with changing interest rates. Interest rate swap agreements are accounted for as either cash flow hedges or fair value hedges. The differentials paid or received on interest rate swap agreements are recognized as adjustments to interest expense. For fair value hedges, the effective portion of the change in fair value of the derivative is recorded in 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. For cash flow hedges, the effective portion of the change in fair value of the derivative is recorded in Accumulated other comprehensive income (loss), on the accompanying Condensed Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to interest expense. The notional amount of interest rate swaps outstanding and designated as fair value hedges was $50 million at March 31, 2007, and at December 30, 2006.

Changes in the fair value of derivative financial instruments qualifying for hedge accounting are reflected as derivative assets or liabilities with the corresponding gains or losses reflected in earnings in the period of change. An offsetting gain or loss is also reflected in earnings based upon the changes of the fair value of the debt instrument being hedged. For all fair value hedges qualifying for hedge accounting, the net accumulated derivative loss at March 31, 2007, was $1.6 million. At March 31, 2007, the maximum maturity date of any fair value hedge was five years. During the first quarter of 2007, cash flow hedge and fair value hedge ineffectiveness was not material.

11. Pension Plans

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

	Three Months Ended	
(Amounts in millions)	**March 31, 2007**	**April 1, 2006**
Service cost	$ 5.9	$ 6.5
Interest cost	12.4	11.8
Expected return on assets	(16.1)	(15.1)
Actuarial loss	1.8	3.1
Prior service cost	0.3	0.3
Net transition asset	(0.1)	(0.1)
Net pension expense	$ 4.2	$ 6.5

Snap-on expects to make contributions to its foreign pension plans throughout 2007 of approximately $7.5 million. Snap-on is not required to make a contribution to its domestic pension plans in 2007. Depending on market and other conditions, Snap-on may elect to make a discretionary cash contribution to its domestic pension plans in 2007.

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Retiree Health Care

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

	Three Months Ended	
(Amounts in millions)	**March 31, 2007**	**April 1, 2006**
Service cost	$ 0.1	$ 0.2
Interest cost	1.0	1.2
Unrecognized net gain	(0.1)	(0.1)
Prior service credit	(0.3)	
Net postretirement expense	$ 0.7	$ 1.3

13. Stock-Based Compensation

The 2001 Incentive Stock and Awards Plan, as Amended (2001 Plan), which was approved by shareholders in 2001 and amended and approved by shareholders in 2006, provides for the grant of stock options, performance share awards and restricted stock awards. As of March 31, 2007, the 2001 Plan has 3,146,996 shares available for future grants.

Snap-on recognized $3.9 million and $3.3 million of compensation cost for the three month periods ended March 31, 2007, and April 1, 2006. Cash received from option exercises during the three month periods ended March 31, 2007, and April 1, 2006, totaled $13.8 million and $25.4 million. The tax benefit realized from the exercise of share-based payment arrangements was $2.5 million and $3.5 million for the three month periods ended March 31, 2007, and April 1, 2006.

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. Grants made prior to 2007 vest in two annual increments beginning on the first anniversary following the grant date of the award. Beginning in 2007, all stock option grants vest over a three-year period, beginning on the first anniversary following the grant date of the award, with the exception of the 2007 grant to the company s Chief Executive Officer, which vests in its entirety within one year 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 expected term of options granted (based on 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 month periods ended March 31, 2007, and April 1, 2006, using the Black-Scholes valuation model:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Three Months Ended March 31, 2007		April 1, 2006	
Expected term of option *(in years)*	6.30		7.19	
Expected volatility factor	25.78	%	29.19	%
Expected dividend yield	3.05	%	3.23	%
Risk-free interest rate	4.69	%	4.59	%

A summary of stock option activity as of and for the three month period ended March 31, 2007, is presented below:

	Shares (*in millions*)	Exercise Price Per Share (*)	Remaining Contractual Term (*) (*in years*)	Aggregate Intrinsic Value (*in millions*)
Outstanding at December 30, 2006	2.8	$ 33.39		
Granted	0.7	50.22		
Exercised	(0.4)	33.83		
Forfeited or expired				
Outstanding at March 31, 2007	3.1	37.02	7.06	$ 34.7
Exercisable at March 31, 2007	2.1	32.52	5.92	32.2

(*) Weighted-average

The weighted-average grant-date fair value of options granted during the three month periods ended March 31, 2007, and April 1, 2006, was $12.14 and $10.57. The intrinsic value of options exercised during the three month periods ended March 31, 2007, and April 1, 2006, was $6.5 million and $7.3 million. The fair value of stock options vested during the three month periods ended March 31, 2007, and April 1, 2006, was $4.2 million and $3.9 million.

As of March 31, 2007, there was $9.8 million of unrecognized compensation cost related to non-vested stock option compensation arrangements granted under the 2001 Plan. That cost is expected to be recognized as a charge to earnings over a weighted-average period of 2.0 years.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Performance Awards

Performance awards granted in 2007 under the 2001 plan are earned and expensed using the fair value of the performance award using the Black-Scholes valuation model over a contractual term of three years based on the company s performance. Vesting of the performance awards will be dependent upon performance relative to pre-defined goals for revenue growth and return on assets for the years 2007 through 2009. Based on Snap-on s performance relative to these goals, the recipient can earn up to 100% of the performance awards. For performance achieved above a certain level, the recipient may earn additional cash units, not to exceed 50% of the number of performance awards initially awarded. Each additional cash unit also represents the right to receive cash of $50.22, which was the fair market value of a share of common stock on the date of grant.

Performance awards granted in 2006 are earned and expensed using the fair value of the performance award using the Black-Scholes valuation model over a contractual term of three years based on the company s performance. Vesting of the performance awards will be dependent upon performance relative to pre-defined goals for revenue growth and return on assets for the years 2006 through 2008. Based on Snap-on s performance relative to these goals, the recipient can earn up to 100% of the performance awards. For performance achieved above a certain level, the recipient may earn additional cash units, not to exceed 50% of the number of performance awards initially awarded. Each additional cash unit also represents the right to receive cash of $39.35, which was the fair market value of a share of common stock on the date of grant.

Performance awards granted in 2005 are earned and expensed using the fair value of the performance award using the Black-Scholes valuation model over a contractual term of three years based on the company s performance. Vesting of the performance awards will be dependent upon performance relative to pre-defined goals for revenue growth and return on assets for the years 2005 through 2007. Based on Snap-on s performance relative to these goals, the recipient can earn up to 100% of the performance awards with an equal number of cash units that represent the right to receive cash of $31.73 per unit. For performance achieved above a certain level, the recipient may earn additional cash units, not to exceed 100% of the number of performance awards initially awarded. Each additional cash unit also represents the right to receive cash of $31.73, which was the fair market value of a share of common stock on the date of grant.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The fair value of each performance award 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 options 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 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 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 three month periods ended March 31, 2007, and April 1, 2006, using the Black-Scholes valuation model.

	Three Months Ended			
	March 31, 2007		**April 1, 2006**	
Expected term of performance award *(in years)*	3.0		3.0	
Expected volatility factor	20.52	%	20.54	%
Expected dividend yield	3.05	%	3.23	%
Risk-free interest rate	4.73	%	4.67	%

The weighted-average grant-date fair value of performance awards granted during the three month periods ended March 31, 2007, and April 1, 2006, was $45.86 and $35.74. As performance share awards vest only at the end of the performance-award period, no shares vested or were paid out during the three month period ended March 31, 2007, and 0.1 million shares were paid out during the three month period ended April 1, 2006.

A summary of the status of the company s non-vested performance share awards as of March 31, 2007, and changes during the three month period ended March 31, 2007, are as follows:

	Shares (*in millions*)	**Grant-Date Fair Value (*)**
Non-vested performance awards at December 30, 2006	0.4	$ 33.52
Granted	0.2	45.86
Vested		
Forfeited or expired		
Non-vested performance awards at March 31, 2007	0.6	38.24

(*) Weighted-average

As of March 31, 2007, there was $13.6 million of unrecognized compensation cost related to non-vested performance share awards granted. That cost is expected to be recognized as a charge to earnings over a weighted-average period of 2.3 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 common stock on the date of grant and have a contractual term of ten years and, for SARs granted prior to 2007, vest in two annual increments beginning on the first anniversary following the grant date of the award. SARs granted in 2007 vest over a three-year period beginning on the first anniversary following the grant date of the award. SARs provide for the cash payment of the excess of the fair market value of

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 each SAR is remeasured each reporting period using the Black-Scholes valuation model. 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 SAR. 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 on the grant 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 three month periods ended March 31, 2007, and April 1, 2006, using the Black-Scholes valuation model.

	Three Months Ended			
	March 31, 2007		**April 1, 2006**	
Expected term of SARs *(in years)*	5.97		7.28	
Expected volatility factor	24.28	%	29.25	%
Expected dividend yield	3.08	%	3.23	%
Risk-free interest rate	4.55	%	4.59	%

The total intrinsic value of SARs exercised during both the three month periods ended March 31, 2007, and April 1, 2006, was $0.5 million. The total fair value of SARs vested during the three month period ended March 31, 2007, and April 1, 2006, was $1.5 million and $0.9 million.

A summary of the status of the company s non-vested SARs as of March 31, 2007, and changes during 2007, are as follows:

	Shares (*in millions*)	**Fair Value (*)**
Non-vested SARs at December 30, 2006	0.1	$ 13.85
Granted	0.1	10.01
Vested		
Forfeited or expired		
Non-vested SARs at March 31, 2007	0.2	11.43

(*) Weighted-average

As of March 31, 2007, there was $1.7 million of unrecognized compensation cost related to non-vested SARs. That cost is expected to be recognized as a charge to earnings over a weighted-average period of 2.2 years.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

14. 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 March 31, 2007	April 1, 2006
Weighted-average common shares outstanding	58,202,133	58,200,198
Dilutive effect of employee stock options	811,825	871,284
Weighted-average common shares outstanding, assuming dilution	59,013,958	59,071,482

The dilutive effect of the potential exercise of outstanding options to purchase common shares is calculated using the treasury stock method. Options to purchase 664,265 shares and 895,059 shares of Snap-on common stock were not included in the computation of diluted earnings per share for the three month periods ended March 31, 2007, and April 1, 2006, as the exercise price 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.

15. Comprehensive Income

Total comprehensive income for the three month periods ended March 31, 2007, and April 1, 2006, was as follows:

(Amounts in millions)	Three Months Ended March 31, 2007	April 1, 2006
Net earnings	$ 39.0	$ 22.1
Foreign currency translation	5.8	3.4
Change in fair value of derivative instruments, net of tax	0.1	0.1
Total comprehensive income	$ 44.9	$ 25.6

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

16. 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 reserve requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience. The following summarizes Snap-on s product warranty accrual activity for the three month periods ended March 31, 2007, and April 1, 2006:

(Amounts in millions)	**Three Months Ended March 31, 2007**	**April 1, 2006**
Warranty reserve:		
Beginning of period	$ 17.3	$ 16.8
Additions	3.8	5.2
Usage	(4.2)	(4.1)
End of period	$ 16.9	$ 17.9

Snap-on has credit risk exposure for certain SOC-originated contracts for franchisee van loans with recourse provisions against Snap-on. At March 31, 2007, and December 30, 2006, $15.4 million and $16.2 million of loans, with terms ranging from six months to ten years, have a primary 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 March 31, 2007, was not material.

On May 16, 2006, Snap-on reached an agreement to settle certain legal matters related to certain then current and former franchisees on a class basis. The court gave its final approval to the class settlement on October 27, 2006. Under the terms of the settlement, Snap-on agreed to make payments to claimants and class counsel, plus incur certain other costs and expenses. Snap-on recorded a $38.0 million pretax charge in the second quarter of 2006 representing its best estimate to settle these legal matters. As of March 31, 2007, the majority of the settlement funds, including payments to the class participants made in the first quarter of 2007, have been disbursed. Snap-on has not admitted any wrongdoing by way of this settlement.

Snap-on is also involved in various other 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 other legal matters, management believes that the results will not have a material impact on Snap-on s consolidated financial position or results of operations.

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

17. Other Income (Expense)

Other income (expense) net consists of the following:

(Amounts in millions)	**March 31, 2007**	**April 1, 2006**
Equity earnings in affiliates	$ 1.2	$
Minority interest	(1.1)	(0.8)
Foreign exchange loss	(0.6)	(1.0)
Interest income	1.3	1.1
Other expense	(0.6)	(0.5)
Total other income (expense) net	$ 0.2	$ (1.2)

18. 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 include: (i) the Snap-on Tools Group; (ii) the Commercial & Industrial Group; (iii) the Diagnostics & Information Group; and (iv) Financial Services. The Snap-on Tools Group consists of the business operations serving the worldwide franchise van channel. The Commercial & Industrial Group consists of the business operations providing tools and equipment products and equipment repair services to a broad range of industrial and commercial customers worldwide through direct, distributor and other non-franchise distribution channels. The Diagnostics & Information Group consists of the business operations providing diagnostics equipment, vehicle service information, business management systems, electronic parts catalogs, and other solutions for vehicle service to customers in the worldwide vehicle service and repair marketplace. Financial Services consists of the business operations of SOC and Snap-on s wholly owned finance subsidiaries in those international markets where Snap-on has franchise operations.

Snap-on evaluates the performance of its operating segments based on segment revenues and operating earnings. For the Snap-on Tools, Commercial & Industrial, and Diagnostics & Information Groups, segment net sales include both external and intersegment net sales. 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. Intersegment amounts are eliminated to arrive at consolidated financial results.

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Financial data by segment was as follows:

(Amounts in millions)	**Three Months Ended March 31, 2007**	**April 1, 2006**
Net sales:		
Snap-on Tools Group	$ 288.5	$ 248.7
Commercial & Industrial Group	321.8	287.2
Diagnostics & Information Group	167.8	119.2
Segment net sales	778.1	655.1
Intersegment eliminations	(68.4)	(61.6)
Total net sales	$ 709.7	$ 593.5
Financial Services revenue	13.4	11.2
Total revenues	$ 723.1	$ 604.7
Operating earnings:		
Snap-on Tools Group	$ 29.3	$ 18.2
Commercial & Industrial Group	28.1	23.1
Diagnostics & Information Group	21.6	10.3
Financial Services	3.7	2.0
Segment operating earnings	82.7	53.6
Corporate	(13.0)	(14.2)
Operating earnings	$ 69.7	$ 39.4
Interest expense	(11.3)	(4.4)
Other income (expense) net	0.2	(1.2)
Earnings before income taxes	$ 58.6	$ 33.8

(Amounts in millions)	**March 31, 2007**	**December 30, 2006**
Assets:		
Snap-on Tools Group	$ 433.1	$ 413.4
Commercial & Industrial Group	1,045.4	1,020.9
Diagnostics & Information Group	847.1	863.5
Financial Services	156.8	156.5
Total assets from reportable segments	$ 2,482.4	$ 2,454.3
Corporate	241.8	233.5
Elimination of intersegment receivables	(43.8)	(33.3)
Total assets	$ 2,680.4	$ 2,654.5

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

Forward-Looking Statement:

Statements in this document that are not historical facts, including statements (i) that 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; (ii) specifically identified as forward-looking; or (iii) describing 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 30, 2006, 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 savings from cost reduction actions, including its ability to 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 cost and 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 enhance their sales and profitability, introduce successful new products, successfully integrate acquisitions (including the company s November 28, 2006, acquisition of Snap-on Business Solutions), as well as its ability to withstand disruption arising from natural disasters, planned facility closures or other labor interruptions, litigation challenges and external negative factors including significant changes in the current competitive environment, inflation, interest rates and other monetary and market fluctuations; and the impact of legal proceedings, energy and raw material supply and pricing (including steel and gasoline), the amount, rate and growth of Snap-on s general and administrative expenses (e.g. health care and/or pension costs), the impacts of non-strategic business and/or product line rationalizations, and terrorist disruptions on business. Interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year. Snap-on disclaims any responsibility to update any forward-looking statement provided in this document, except as required by law.

SNAP-ON INCORPORATED

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS

Highlights of Snap-on s results of operations for the first quarters of fiscal 2007 and fiscal 2006 are as follows:

	Three Months Ended	
(Amounts in millions)	**March 31, 2007**	**April 1, 2006**