SNAP ON INC
Form 10-Q
July 25, 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 **June 30, 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 July 20, 2007
Common Stock, $1.00 par value	57,972,816 shares

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions, except per share data)

(Unaudited)

	Three Months Ended June 30, 2007	Three Months Ended July 1, 2006	Six Months Ended June 30, 2007	Six Months Ended July 1, 2006
Net sales	$ 711.9	$ 621.7	$ 1,417.6	$ 1,209.0
Cost of goods sold	(389.5)	(341.8)	(785.3)	(670.5)
Gross profit	322.4	279.9	632.3	538.5
Financial services revenue	14.8	11.7	28.2	22.9
Financial services expenses	(9.7)	(8.7)	(19.4)	(17.9)
Operating income from financial services	5.1	3.0	8.8	5.0
Operating expenses:				
Selling, general and administrative	(240.1)	(224.9)	(485.0)	(446.9)
Litigation settlement		(38.0)		(38.0)
Total operating expenses	(240.1)	(262.9)	(485.0)	(484.9)
Operating earnings	87.4	20.0	156.1	58.6
Interest expense	(11.7)	(4.7)	(23.0)	(9.1)
Other income (expense) net	2.5	0.3	2.7	(0.9)
Earnings from continuing operations	78.2	15.6	135.8	48.6
Income tax expense	(25.4)	(3.9)	(45.0)	(15.6)
Net earnings from continuing operations	52.8	11.7	90.8	33.0
Discontinued operations, net of tax	(9.0)	0.1	(8.0)	0.9
Net earnings	$ 43.8	$ 11.8	$ 82.8	$ 33.9
Basic earnings per common share:				
Earnings per share, continuing operations	$ 0.91	$ 0.20	$ 1.56	$ 0.56
Earnings (loss) per share, discontinued operations	(0.16)		(0.14)	0.02
Net earnings per share	$ 0.75	$ 0.20	$ 1.42	$ 0.58
Diluted earnings per common share:				
Earnings per share, continuing operations	$ 0.90	$ 0.20	$ 1.54	$ 0.56
Earnings (loss) per share, discontinued operations	(0.16)		(0.14)	0.02
Net earnings per share	$ 0.74	$ 0.20	$ 1.40	$ 0.58
Weighted-average shares outstanding:				
Basic	58.1	58.2	58.2	58.2
Effect of dilutive options	0.7	0.7	0.7	0.7
Diluted	58.8	58.9	58.9	58.9
Dividends declared per common share	$ 0.27	$ 0.27	$ 0.54	$ 0.54

See notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	June 30, 2007	December 30, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 72.0	$ 63.4
Accounts receivable net of allowances	561.2	559.2
Inventories	323.9	323.0
Deferred income tax benefits	67.5	76.0
Prepaid expenses and other assets	78.8	91.6
Total current assets	1,103.4	1,113.2
Property and equipment		
Land	23.9	24.3
Buildings and improvements	231.6	236.7
Machinery and equipment	539.8	540.9
	795.3	801.9
Accumulated depreciation and amortization	(501.7)	(504.8)
Property and equipment net	293.6	297.1
Deferred income tax benefits	58.8	55.3
Goodwill	786.0	776.1
Other intangibles net	242.8	257.8
Pension assets	14.4	14.0
Other assets	161.3	141.0
Total assets	$ 2,660.3	$ 2,654.5

See notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	June 30, 2007	December 30, 2006
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	$ 185.3	$ 178.8
Notes payable and current maturities of long-term debt	19.7	43.6
Accrued benefits	40.5	41.4
Accrued compensation	73.7	90.4
Franchisee deposits	46.4	48.5
Deferred subscription revenue	25.1	25.3
Income taxes	23.6	37.8
Other accrued liabilities	209.4	216.2
Total current liabilities	623.7	682.0
Long-term debt	501.4	505.6
Deferred income taxes	83.7	88.9
Retiree health care benefits	67.9	69.6
Pension liabilities	120.1	113.9
Other long-term liabilities	126.5	118.2
Total liabilities	1,523.3	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 67,095,354 and 67,081,801 shares)	67.1	67.1
Additional paid-in capital	129.7	121.9
Retained earnings	1,231.4	1,180.3
Accumulated other comprehensive income (loss)	46.9	21.2
Grantor Stock Trust at fair market value (zero and 407,485 shares)		(19.4)
Treasury stock at cost (9,168,225 and 8,503,482 shares)	(338.1)	(294.8)
Total shareholders equity	1,137.0	1,076.3
Total liabilities and shareholders equity	$ 2,660.3	$ 2,654.5

See notes to Condensed Consolidated Financial Statements

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Six Months Ended June 30, 2007	July 1, 2006
Operating activities:		
Net earnings	$ 82.8	$ 33.9
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	25.1	24.4
Amortization of other intangibles	8.7	0.8
Stock-based compensation expense	9.3	6.9
Excess tax benefits from stock-based compensation	(5.3)	(6.1)
Deferred income tax provision (benefit)	4.8	(2.4)
Gain on sale of assets		(0.4)
Loss (gain) on mark to market for cash flow hedges	0.1	(0.2)
Changes in operating assets and liabilities, net of effects of acquisition:		
(Increase) decrease in receivables	7.4	(12.1)
(Increase) decrease in inventories	3.7	(19.6)
(Increase) decrease in prepaid and other assets	5.8	(16.0)
Increase (decrease) in accounts payable	3.4	14.0
Increase (decrease) in accruals and other liabilities	(28.3)	49.8
Net cash provided by operating activities	117.5	73.0
Investing activities:		
Capital expenditures	(27.6)	(19.9)
Acquisition of business	(4.1)	
Proceeds from disposal of property and equipment	8.6	11.0
Other	(1.9)	1.0
Net cash used in investing activities	(25.0)	(7.9)
Financing activities:		
Proceeds from issuance of long-term debt	298.5	
Net decrease in short-term borrowings	(328.2)	(8.5)
Purchase of treasury stock	(64.3)	(58.3)
Proceeds from stock purchase and option plans	35.4	46.0
Excess tax benefits from stock-based compensation	5.3	6.1
Cash dividends paid	(31.6)	(31.8)
Net cash used in financing activities	(84.9)	(46.5)
Effect of exchange rate changes on cash and cash equivalents	1.0	1.1
Increase in cash and cash equivalents	8.6	19.7
Cash and cash equivalents at beginning of year	63.4	170.4
Cash and cash equivalents at end of period	$ 72.0	$ 190.1
Supplemental cash flow disclosures:		
Cash paid for interest	$ (15.9)	$ (7.8)
Net cash paid for income taxes	(10.7)	(16.0)

See notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED 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, and the Condensed Consolidated Statements of Earnings have been restated to reflect the company s June 29, 2007, sale of its Sun Electric Systems (SES) business as Discontinued Operations. See Note 17 for information on the sale of SES.

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 and six month periods ended June 30, 2007, and July 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, *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 information regarding income taxes.

Effective December 31, 2006, 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 of the company s fiscal-2008 year. The company is currently evaluating the impact of adopting SFAS No. 157.

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

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

(Unaudited)

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.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards.* EITF 06-11 specifies how companies should recognize the income tax benefit received on dividends that are (i) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options; and (ii) charged to retained earnings under SFAS No. 123 (R), *Share-Based Payment.* EITF 06-11 is effective for Snap-on beginning in fiscal 2008. The company does not believe the adoption of EITF 06-11 will have a material impact on the company s consolidated financial statements.

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 an initial purchase price of $516 million of cash and the assumption of approximately $19 million of debt. The initial purchase price, which remains subject to the completion of a working capital adjustment, increased by $4.1 million to $520.1 million in the second quarter of 2007, primarily reflecting the higher level of working capital received by Snap-on at closing. The preliminary purchase price allocation is based upon the preliminary 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 third 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, based on exchange rates at the date of acquisition.

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)	**June 30, 2007**	**December 30, 2006**
Trade accounts receivable	$ 486.1	$ 477.6
Installment receivables, net of unearned finance charges of $7.6 million and $7.3 million	66.2	62.4
Other accounts receivable	42.8	52.1
Total	595.1	592.1
Allowance for doubtful accounts	(33.9)	(32.9)
Total accounts receivable net	$ 561.2	$ 559.2

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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)	**June 30, 2007**	**December 30, 2006**
Installment receivables, net of unearned finance charges of $9.8 million and $9.2 million	$ 45.7	$ 42.6
Other long-term accounts receivable	29.3	28.3
Total	$ 75.0	$ 70.9

5. Inventories

Inventories by major classification were as follows:

(Amounts in millions)	**June 30, 2007**	**December 30, 2006**
Finished goods	$ 310.3	$ 310.4
Work in progress	35.4	35.2
Raw materials	62.8	64.1
Total FIFO value	408.5	409.7
Excess of current cost over LIFO cost	(84.6)	(86.7)
Total inventories	$ 323.9	$ 323.0

Inventories accounted for using the first-in, first-out (FIFO) method as of June 30, 2007, and December 30, 2006, approximated 64% and 62% of total inventories. The company accounts for its non-U.S. inventory on the FIFO method. As of June 30, 2007, approximately 32% of the company s U.S. inventory was accounted for using the FIFO method and 68% 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 $0.4 and $1.4 million for the six month periods ended June 30, 2007, and July 1, 2006. There were no LIFO inventory liquidations for the three month periods ended June 30, 2007, and July 1, 2006.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Acquired Intangible Assets

Disclosures related to other intangible assets are as follows:

(Amounts in millions)	June 30, 2007 Gross Carrying Value	June 30, 2007 Accumulated Amortization	December 30, 2006 Gross Carrying Value	December 30, 2006 Accumulated Amortization
Amortized other intangible assets:				
Customer relationships	$ 165.1	$ (5.9)	$ 164.6	$ (0.9)
Developed technology	21.1	(2.9)	28.3	(0.4)
Patents	33.0	(16.8)	32.5	(15.8)
Trademarks	2.8	(1.0)	2.8	(0.9