SNAP ON INC
Form 10-Q
July 24, 2008

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 28, 2008**
	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, 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 x Accelerated filer o Non-accelerated filer o Smaller reporting company 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 18, 2008
Common Stock, $1.00 par value	57,438,381 shares

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PART I. **FINANCIAL INFORMATION**

Item 1: **Condensed Consolidated Financial Statements (Unaudited)**

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net sales	$ 766.1	$ 711.9	$ 1,487.7	$ 1,417.6
Cost of goods sold	(419.6)	(389.5)	(815.3)	(785.3)
Gross profit	346.5	322.4	672.4	632.3
Financial services revenue	18.3	14.8	43.7	28.2
Financial services expenses	(7.5)	(9.7)	(20.1)	(19.4)
Operating income from financial services	10.8	5.1	23.6	8.8
Operating expenses	(245.6)	(240.1)	(491.1)	(485.0)
Operating earnings	111.7	87.4	204.9	156.1
Interest expense	(8.8)	(11.7)	(18.3)	(23.0)
Other income (expense) net	1.3	3.2	2.3	3.3
Earnings before income taxes, equity earnings and minority interests	104.2	78.9	188.9	136.4
Income tax expense	(34.5)	(25.1)	(62.8)	(44.6)
Earnings before equity earnings and minority interests	69.7	53.8	126.1	91.8
Equity earnings, net of tax and minority interests	(2.8)	(1.0)	(2.6)	(1.0)
Net earnings from continuing operations	66.9	52.8	123.5	90.8
Discontinued operations, net of tax		(9.0)		(8.0)
Net earnings	$ 66.9	$ 43.8	$ 123.5	$ 82.8
Basic earnings per common share:				
Earnings from continuing operations	$ 1.16	$ 0.91	$ 2.15	$ 1.56
Loss from discontinued operations		(0.16)		(0.14)
Net earnings per share	$ 1.16	$ 0.75	$ 2.15	$ 1.42
Diluted earnings per common share:				
Earnings from continuing operations	$ 1.15	$ 0.90	$ 2.12	$ 1.54
Loss from discontinued operations		(0.16)		(0.14)
Net earnings per share	$ 1.15	$ 0.74	$ 2.12	$ 1.40
Weighted-average shares outstanding:				
Basic	57.6	58.1	57.6	58.2
Effect of dilutive options	0.5	0.7	0.6	0.7
Diluted	58.1	58.8	58.2	58.9
Dividends declared per common share	$ 0.30	$ 0.27	$ 0.60	$ 0.54

See Notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	June 28, 2008	December 29, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 140.6	$ 93.0
Accounts receivable net of allowances	617.5	586.9
Inventories	378.1	322.4
Deferred income tax assets	84.3	87.0
Prepaid expenses and other assets	87.3	98.1
Total current assets	1,307.8	1,187.4
Property and equipment		
Land	23.9	22.9
Buildings and improvements	236.0	224.1
Machinery and equipment	573.0	544.7
	832.9	791.7
Accumulated depreciation and amortization	(501.6)	(486.9)
Property and equipment net	331.3	304.8
Deferred income tax assets	12.8	22.0
Goodwill	854.3	818.8
Other intangibles net	239.8	234.8
Pension assets	54.6	57.0
Other assets	145.0	140.3
Total assets	$ 2,945.6	$ 2,765.1

See Notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	June 28, 2008	December 29, 2007
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	$ 184.3	$ 171.6
Notes payable and current maturities of long-term debt	22.7	15.9
Accrued benefits	43.1	41.3
Accrued compensation	82.0	95.6
Franchisee deposits	47.7	51.0
Deferred subscription revenue	26.1	25.9
Income taxes	34.2	25.5
Other accrued liabilities	232.1	212.4
Total current liabilities	672.2	639.2
Long-term debt	500.5	502.0
Deferred income tax liabilities	96.8	91.2
Retiree health care benefits	51.6	53.8
Pension liabilities	89.2	85.3
Other long-term liabilities	120.0	113.5
Total liabilities	1,530.3	1,485.0
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 67,179,287 and 67,110,281 shares)	67.2	67.1
Additional paid-in capital	148.9	137.9
Retained earnings	1,385.3	1,296.7
Accumulated other comprehensive income (loss)	206.0	142.8
Treasury stock at cost (9,748,873 and 9,681,142 shares)	(392.1)	(364.4)
Total shareholders equity	1,415.3	1,280.1
Total liabilities and shareholders equity	$ 2,945.6	$ 2,765.1

See Notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Six Months Ended	
	June 28, 2008	June 30, 2007
Operating activities:		
Net earnings	$ 123.5	$ 82.8
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	24.4	25.1
Amortization of other intangibles	12.1	8.7
Stock-based compensation expense	8.0	9.3
Excess tax benefits from stock-based compensation	(5.4)	(5.3)
Deferred income tax provision	16.4	4.8
Gain on sale of assets	(0.1)	
Loss (gain) on mark to market for cash flow hedges	(0.1)	0.1
Changes in operating assets and liabilities, net of effects of acquisitions:		
(Increase) decrease in receivables	(13.5)	7.4
(Increase) decrease in inventories	(39.5)	3.7
(Increase) decrease in prepaid and other assets	14.0	5.8
Increase (decrease) in accounts payable	6.7	3.4
Increase (decrease) in accruals and other liabilities	1.8	(28.3)
Net cash provided by operating activities	148.3	117.5
Investing activities:		
Capital expenditures	(33.3)	(27.6)
Acquisitions of businesses net of cash acquired	(13.8)	(4.1)
Proceeds from disposal of property and equipment	7.7	8.6
Other	(5.1)	(1.9)
Net cash used in investing activities	(44.5)	(25.0)
Financing activities:		
Net proceeds from issuance of long-term debt		298.5
Net decrease in short-term borrowings	(0.7)	(328.2)
Purchase of treasury stock	(66.3)	(64.3)
Proceeds from stock purchase and option plans	39.0	35.4
Cash dividends paid	(34.9)	(31.6)
Excess tax benefits from stock-based compensation	5.4	5.3
Other	(0.4)	
Net cash used by financing activities	(57.9)	(84.9)
Effect of exchange rate changes on cash and cash equivalents	1.7	1.0
Increase in cash and cash equivalents	47.6	8.6
Cash and cash equivalents at beginning of year	93.0	63.4
Cash and cash equivalents at end of period	$ 140.6	$ 72.0
Supplemental cash flow disclosures:		
Cash paid for interest	$ (18.4)	$ (15.9)
Net cash paid for income taxes	(28.0)	(10.7)

See Notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Summary of Accounting Policies

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) 2007 Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

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. Snap-on s 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. Certain prior year amounts have been reclassified on the Condensed Consolidated Statements of Earnings 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 condensed consolidated financial statements for the three and six month periods ended June 28, 2008, and June 30, 2007, have been made. The 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 could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

Effective December 30, 2007, the beginning of the company s 2008 fiscal year, Snap-on adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority (Level 1) to unadjusted quoted prices in active markets for identical assets and liabilities, and gives the lowest priority (Level 3) to unobservable inputs. The adoption of SFAS No. 157 did not have a significant effect on the company s consolidated financial statements. See Note 18 for further information.

Snap-on adopted Emerging Issues Task Force Issue No. 06-11 (EITF Issue No. 06-11), *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards,* on December 30, 2007. EITF Issue No. 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.* The adoption and application of EITF Issue No. 06-11 did not have a significant impact on Snap-on s consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Effective December 30, 2007, Snap-on adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115.* SFAS No. 159 expands the use of fair value measurement by permitting entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Snap-on did not elect the fair value option for any of its financial assets or liabilities.

In April 2008 the Financial Accounting Standards Board (FASB) released staff position (FSP) SFAS No. 142-3, *Determination of the Useful Life of Intangible Assets*. The FSP requires entities to disclose information for recognized intangible assets that enable users of financial statements to understand the extent to which expected future cash flows associated with intangible assets are affected by the entity s intent or ability to renew or extend the arrangement associated with the intangible asset. The FSP also amends the factors an entity should consider in developing the renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets.* The FSP will be applied prospectively only to intangible assets acquired after the FSP s effective date, but the disclosure requirements will be applied prospectively to all intangible assets recognized as of, and after, the FSP s effective date. The FSP is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The company is currently assessing the impact the adoption of the FSP will have on the company s consolidated financial statements.

In December 2007 the FASB released SFAS No. 141(R), *Business Combinations,* to establish accounting and reporting standards to improve the relevance, comparability and transparency of financial information that an acquirer would provide in its consolidated financial statements from a business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The company is currently assessing the impact the adoption of SFAS No. 141(R) will have on the company s consolidated financial statements.

In December 2007 the FASB also released SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51,* to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The company is currently assessing the impact the adoption of SFAS No. 160 will have on the company s consolidated statements.

In March 2008 the FASB released SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities.* SFAS No. 161 requires additional disclosures related to the use of derivative instruments, the accounting for derivatives and the financial statement impact of derivatives. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. The company is currently assessing the impact the adoption of SFAS No. 161 will have on the company s consolidated financial statements.

Note 2: Acquisitions

On March 5, 2008, Snap-on acquired a 60% interest in Zhejiang Wanda Tools Co., Ltd. (Wanda Snap-on), a tool manufacturer in China, for an initial cash purchase price of $14.7 million, including an estimated $1.1 million of transaction costs. The preliminary purchase price, which is subject to the finalization of working capital and certain other adjustments that are expected to be finalized in the fourth quarter of 2008, increased from $14.7 million to $15.1 million (or $13.8 million, net of cash acquired) as of June 28, 2008.

The Wanda Snap-on joint venture agreement granted a redeemable minority interest right to the minority shareholder that could require Snap-on to acquire the minority interest a purchase price of either $9.1 million or

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

$10.6 million if certain financial metrics (as defined in the joint venture agreement) are reached during the five-year period subsequent to the acquisition date.

For segment reporting purposes, the results of operations and assets of Wanda Snap-on, which have been included in Snap-on s consolidated financial statements since the date of acquisition, are included in the Commercial & Industrial Group. Pro forma financial information has not been presented as the effects of the acquisition were not material to Snap-on s results of operations or financial position.

Note 3: 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 28, 2008	December 29, 2007
Trade accounts receivable	$ 520.7	$ 493.7
Installment receivables, net of unearned finance charges of $10.3 million and $8.5 million	77.3	73.4
Other accounts receivable	48.5	51.5
Total	646.5	618.6
Allowances for doubtful accounts	(29.0)	(31.7)
Total accounts receivable net	$ 617.5	$ 586.9

Long-term 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 beyond one year. As of June 28, 2008, long-term accounts receivable totaled $78.4 million, net of unearned finance charges of $15.1 million. As of December 29, 2007, long-term accounts receivable totaled $79.9 million, net of unearned finance charges of $10.7 million.

SOC sells finance receivable loan originations to CIT on a limited recourse basis and retains the rights to service such loans, for which SOC receives contractual servicing fees. SOC recognizes a servicing asset at the time the loan originations are sold to CIT since the contractual servicing fee provides SOC with more than adequate compensation for the level of services provided. Contractual servicing fees were $2.3 million and $4.7 million for the three and six month periods ended June 28, 2008, respectively, and were $2.3 million and $4.6 million for the three and six month periods ended June 30, 2007, respectively. The servicing asset is amortized to financial services revenue over the life of the finance receivables.

The following summarizes the activity in servicing assets for the three and six month periods ended June 28, 2008, and June 30, 2007:

	Three Months Ended		Six Months Ended	
(Amounts in millions)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Servicing assets at beginning of period	$ 6.3	$ 8.6	$ 7.0	$ 9.1
Originated	1.0	1.0	2.2	2.0
Amortized	(1.8)	(1.5)	(3.7)	(3.0)
Servicing assets at end of period	$ 5.5	$ 8.1	$ 5.5	$ 8.1

Servicing assets are included in Accounts receivable net of allowances in the accompanying Condensed Consolidated Balance Sheets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 4: Inventories

Inventories by major classification are as follows:

(Amounts in millions)	June 28, 2008	December 29, 2007
Finished goods	$ 347.0	$ 299.8
Work in progress	35.2	33.6
Raw materials	73.7	64.0
Total FIFO value	455.9	397.4
Excess of current cost over LIFO cost	(77.8)	(75.0)
Total inventories	$ 378.1	$ 322.4

Inventories accounted for using the first-in, first-out (FIFO) method as of both June 28, 2008, and December 29, 2007, approximated 65% of total inventories. The company accounts for its non-U.S. inventory on the FIFO basis. As of June 28, 2008, approximately 29% of the company s U.S. inventory was accounted for using the FIFO basis and 71% was accounted for using the last-in, first-out (LIFO) basis. LIFO inventory liquidations resulted in a reduction of Cost of goods sold on the accompanying Condensed Consolidated Statements of Earnings of $0.4 million for the six month period ended June 30, 2007; there were no LIFO inventory liquidations in 2008.

Note 5: Intangible and Other Assets

Other intangible assets by major classification are as follows:

	June 28, 2008		December 29, 2007	
(Amounts in millions)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Amortized other intangible assets:				
Customer relationships	$ 140.1	$ (15.5)	$ 140.3	$ (10.8)
Internally developed software	42.8	(16.7)	37.0	(13.0)
Patents	34.8	(19.3)	33.8	(18.0)
Developed technology	21.0	(7.7)	21.0	(5.3)
Trademarks	2.2	(0.5)	2.0	(0.5)
Other	9.1	(0.9)	0.7	(0.6)
Total	250.0	(60.6)	234.8	(48.2)
Non-amortized trademarks	50.4		48.2	

Total	$	300.4	$	(60.6)	$	283.0	$	(48.2)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

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

(In years)	Weighted-average Amortization
Customer relationships	16
Internally developed software	3
Patents	16
Developed technology	5
Trademarks	38
Other	45

The weighted-average amortization period for all amortizable intangibles on a combined basis is 19 years.

Amortization expense was $6.4 million and $12.1 million for the three and six month periods ended June 28, 2008, and $4.3 million and $8.7 million for the three and six month periods ended June 30, 2007, respectively. Based on current levels of amortizable intangible assets and estimated weighted-average useful lives, annual amortization expense is expected to be $24.2 million in 2008, $22.4 million in 2009, $18.1 million in 2010, $15.3 million in 2011, $13.5 million in 2012, and $9.8 million in 2013.

Goodwill was $854.3 million and $818.8 million at June 28, 2008, and December 29, 2007, respectively. The increase in goodwill from year-end 2007 levels primarily resulted from currency translation of $28.5 million and preliminary purchase accounting adjustments related to the Wanda Snap-on acquisition. See Note 2 for additional information on the company s acquisition of Wanda Snap-on.

The company has various insurance policies on the lives of certain former executive officers. Snap-on s investment in these policies is recorded net of policy loans in Other assets on the accompanying Condensed Consolidated Balance Sheets. The policy loans carry a variable interest rate (currently at 5.52%), require interest only payments annually, and are collateralized by the cash value of the life insurance policies. The interest rate charged on the policy loans may be adjusted annually based on a corporate bond yield as published by Moody s Investors Service. A summary of the net cash value of life insurance as of June 28, 2008, and December 29, 2007, is as follows:

(Amounts in millions)	June 28, 2008	December 29, 2007
Cash surrender value of life insurance	$ 8.6	$ 8.3
Policy loans outstanding	(6.0)	(5.9)
Net cash value of life insurance	$ 2.6	$ 2.4

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 6: Exit and Disposal Activities

Snap-on recorded costs associated with exit and disposal activities of $2.0 million and $6.6 million for the three and six month periods ended June 28, 2008, respectively, and $6.5 million and $14.7 million for the three and six month periods ended June 30, 2007, respectively.

	Three Months Ended		Six Months Ended	
(Amounts in millions)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Exit and disposal costs:				
Cost of goods sold	$ (0.1)	$ 5.6	$ 2.0	$ 11.3
Operating expenses	2.1			