SNAP-ON Inc
Form 10-Q
October 23, 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 **September 27, 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 October 17, 2008
Common Stock, $1.00 par value	57,438,885 shares

TABLE OF CONTENTS

		Page
Part I: Financial Information		
Item 1.	Financial Statements	
	Condensed Consolidated Statements of Earnings Three and Nine Months Ended September 27, 2008, and September 29, 2007	3
	Condensed Consolidated Balance Sheets September 27, 2008, and December 29, 2007	4-5
	Condensed Consolidated Statements of Cash Flows Nine Months Ended September 27, 2008, and September 29, 2007	6
	Notes to Condensed Consolidated Financial Statements	7-24
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	25-39
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	40-41
Item 4.	Controls and Procedures	41
Part II: Other Information		
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 6.	Exhibits	43
	Signatures	44
	Exhibit Index	45

PART 1. FINANCIAL INFORMATION

Item 1: Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Net sales	$ 697.8	$ 680.7	$ 2,185.5	$ 2,098.3
Cost of goods sold	(385.6)	(379.8)	(1,200.9)	(1,165.1)
Gross profit	312.2	300.9	984.6	933.2
Financial services revenue	18.0	15.8	61.7	44.0
Financial services expenses	(13.2)	(10.2)	(33.3)	(29.6)
Operating income from financial services	4.8	5.6	28.4	14.4
Operating expenses	(230.6)	(234.1)	(721.7)	(719.1)
Operating earnings	86.4	72.4	291.3	228.5
Interest expense	(6.8)	(11.6)	(25.1)	(34.6)
Other income (expense) net	1.0	2.6	3.3	5.9
Earnings before income taxes, equity earnings and minority interests	80.6	63.4	269.5	199.8
Income tax expense	(26.8)	(21.6)	(89.6)	(66.2)
Earnings before equity earnings and minority interests	53.8	41.8	179.9	133.6
Equity earnings, net of tax and minority interests	0.8	(0.7)	(1.8)	(1.7)
Net earnings from continuing operations	54.6	41.1	178.1	131.9
Discontinued operations, net of tax				(8.0)
Net earnings	$ 54.6	$ 41.1	$ 178.1	$ 123.9
Basic earnings per common share:				
Earnings from continuing operations	$ 0.95	$ 0.71	$ 3.10	$ 2.28
Loss from discontinued operations				(0.14)
Net earnings per share	$ 0.95	$ 0.71	$ 3.10	$ 2.14
Diluted earnings per common share:				
Earnings from continuing operations	$ 0.94	$ 0.70	$ 3.06	$ 2.25
Loss from discontinued operations				(0.14)
Net earnings per share	$ 0.94	$ 0.70	$ 3.06	$ 2.11
Weighted-average shares outstanding:				

Basic	57.5	57.7	57.5	58.0
Effect of dilutive options	0.7	0.7	0.7	0.7
Diluted	58.2	58.4	58.2	58.7
Dividends declared per common share	$ 0.30	$ 0.27	$ 0.90	$ 0.81

See Notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	Sept. 27, 2008	Dec. 29, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 118.3	$ 93.0
Accounts receivable net of allowances	606.2	586.9
Inventories	388.0	322.4
Deferred income tax assets	78.9	87.0
Prepaid expenses and other assets	90.1	98.1
Total current assets	1,281.5	1,187.4
Property and equipment		
Land	22.9	22.9
Buildings and improvements	231.3	224.2
Machinery and equipment	569.3	544.8
	823.5	791.9
Accumulated depreciation and amortization	(497.4)	(487.1)
Property and equipment net	326.1	304.8
Deferred income tax assets	10.8	22.0
Goodwill	828.5	818.8
Other intangibles net	231.9	234.8
Pension assets	54.6	57.0
Other assets	146.1	140.3
Total assets	$ 2,879.5	$ 2,765.1

See Notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	Sept. 27, 2008	Dec. 29, 2007
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	$ 171.7	$ 171.6
Notes payable and current maturities of long-term debt	15.3	15.9
Accrued benefits	42.6	41.3
Accrued compensation	89.4	95.6
Franchisee deposits	48.2	51.0
Deferred subscription revenue	23.6	25.9
Income taxes	32.5	25.5
Other accrued liabilities	232.5	212.4
Total current liabilities	655.8	639.2
Long-term debt	500.6	502.0
Deferred income tax liabilities	93.8	91.2
Retiree health care benefits	51.0	53.8
Pension liabilities	83.3	85.3
Other long-term liabilities	114.8	113.5
Total liabilities	1,499.3	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 67,186,907 and 67,110,281 shares)	67.2	67.1
Additional paid-in capital	152.3	137.9
Retained earnings	1,422.5	1,296.7
Accumulated other comprehensive income (loss)	131.7	142.8
Treasury stock at cost (9,755,955 and 9,681,142 shares)	(393.5)	(364.4)
Total shareholders equity	1,380.2	1,280.1
Total liabilities and shareholders equity	$ 2,879.5	$ 2,765.1

See Notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Nine Months Ended	
	Sept. 27, 2008	Sept. 29, 2007
Operating activities:		
Net earnings	$ 178.1	$ 123.9
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	36.6	37.3
Amortization of other intangibles	18.4	13.0
Stock-based compensation expense	11.9	14.2
Excess tax benefits from stock-based compensation	(5.7)	(5.8)
Deferred income tax provision	23.3	
Gain on sale of assets	(0.1)	(2.4)
Loss on mark to market for cash flow hedges		0.1
Changes in operating assets and liabilities, net of effects of acquisitions:		
(Increase) decrease in receivables	(21.2)	14.9
(Increase) decrease in inventories	(62.5)	5.8
(Increase) decrease in prepaid and other assets	3.5	0.1
Increase (decrease) in accounts payable	(1.5)	(16.1)
Increase (decrease) in accruals and other liabilities	(12.1)	(8.1)
Net cash provided by operating activities	168.7	176.9
Investing activities:		
Capital expenditures	(48.3)	(43.2)
Acquisitions of businesses net of cash acquired	(13.8)	(5.1)
Proceeds from disposal of property and equipment	7.7	13.9
Other	(5.5)	(0.9)
Net cash used by investing activities	(59.9)	(35.3)
Financing activities:		
Net proceeds from issuance of long-term debt		298.5
Net decrease in short-term borrowings	(7.3)	(323.3)
Purchase of treasury stock	(69.8)	(85.8)
Proceeds from stock purchase and option plans	41.3	38.1
Cash dividends paid	(52.3)	(47.4)
Excess tax benefits from stock-based compensation	5.7	5.8
Other	(0.7)	(0.6)
Net cash used by financing activities	(83.1)	(114.7)
Effect of exchange rate changes on cash and cash equivalents	(0.4)	2.3
Increase in cash and cash equivalents	25.3	29.2
Cash and cash equivalents at beginning of year	93.0	63.4
Cash and cash equivalents at end of period	$ 118.3	$ 92.6
Supplemental cash flow disclosures:		
Cash paid for interest	$ (30.0)	$ (32.1)
Net cash paid for income taxes	(52.6)	(33.8)

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 nine month periods ended September 27, 2008, and September 29, 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.

7

SNAP-ON INCORPORATED

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 enables 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 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 adoption of SFAS No. 142-3 is not expected to have a significant effect 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. The provisions of SFAS No. 141(R) will be effective for Snap-on for all business combinations with an acquisition date on or after January 4, 2009, the beginning of Snap-on s 2009 fiscal year; earlier application is not permitted.

In December 2007 the FASB also released SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51,* which requires noncontrolling interests in partially owned consolidated subsidiaries to be classified in the consolidated balance sheet as a separate component of consolidated shareholders equity. The amount of net income attributable to the controlling and noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 also requires that controlling interests recognize a gain or loss by using the fair value of the noncontrolling equity investment on the date of deconsolidation. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 160 is not expected to have a significant effect on the company s consolidated financial 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 adoption of SFAS No. 161 is not expected to have a significant effect on the company s consolidated financial statements.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

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) in the second quarter of 2008; no purchase price adjustments were recorded in the third quarter of 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 at a purchase price of either $9.1 million or $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)	September 27, 2008	December 29, 2007
Trade accounts receivable	$ 512.8	$ 493.7
Installment receivables, net of unearned finance charges of $9.6 million and $8.5 million	74.3	73.4
Other accounts receivable	48.1	51.5
Total	635.2	618.6
Allowances for doubtful accounts	(29.0)	(31.7)
Total accounts receivable net of allowances	$ 606.2	$ 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 September 27, 2008, long-term accounts receivable totaled $77.1 million, net of unearned finance charges of $14.9 million. As of December 29, 2007, long-term accounts receivable totaled $79.9 million, net of unearned finance charges of $10.7 million.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

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 $7.0 million for the three and nine month periods ended September 27, 2008, respectively, and were $2.3 million and $6.9 million for the three and nine month periods ended September 29, 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 nine month periods ended September 27, 2008, and September 29, 2007:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Servicing assets at beginning of period	$ 5.5	$ 8.1	$ 7.0	$ 9.1
Originated	1.0	0.9	3.2	2.9
Amortized	(1.8)	(1.6)	(5.5)	(4.6)
Servicing assets at end of period	$ 4.7	$ 7.4	$ 4.7	$ 7.4

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

Note 4: Inventories

Inventories by major classification were as follows:

(Amounts in millions)	September 27, 2008	December 29, 2007
Finished goods	$ 355.6	$ 299.8
Work in progress	33.4	33.6
Raw materials	81.0	64.0
Total FIFO value	470.0	397.4
Excess of current cost over LIFO cost	(82.0)	(75.0)
Total inventories	$ 388.0	$ 322.4

Inventories accounted for using the first-in, first-out (FIFO) method as of September 27, 2008, and December 29, 2007, approximated 64% and 65%, respectively, of total inventories. The company accounts for its non-U.S. inventory on the FIFO basis. As of September 27, 2008, approximately 31% of the company s U.S. inventory was accounted for using the FIFO basis and 69% 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 $0.2 million for the nine month period ended September 29, 2007; there were no LIFO inventory liquidations in 2008.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 5: Intangible and Other Assets

Other intangible assets by major classification are as follows:

	September 27, 2008		December 29, 2007	
(Amounts in millions)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Amortized other intangible assets:				
Customer relationships	$ 138.6	$ (17.7)	$ 140.3	$ (10.8)
Internally developed software	45.1	(18.9)	37.0	(13.0)
Patents	34.4	(19.3)	33.8	(18.0)
Developed technology	20.5	(8.6)	21.0	(5.3)
Trademarks	2.1	(0.5)	2.0	(0.5)
Other	9.0	(0.9)	0.7	(0.6)
Total	249.7	(65.9)	234.8	(48.2)
Non-amortized trademarks	48.1		48.2	
Total	$ 297.8	$ (65.9)	$ 283.0	$ (48.2)

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 $6.3 million and $18.4 million for the three and nine month periods ended September 27, 2008, respectively, and $4.3 million and $13.0 million for the three and nine month periods ended September 29, 2007, respectively. Based on current levels of amortizable intangible assets and estimated weighted-average useful lives, annual amortization expense is expected to be $24.8 million in 2008, $24.1 million in 2009, $19.6 million in 2010, $17.1 million in 2011, $13.8 million in 2012, and $10.7 million in 2013.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Goodwill was $828.5 million and $818.8 million at September 27, 2008, and December 29, 2007, respectively. The increase in goodwill from year-end 2007 levels primarily resulted from preliminary purchase accounting adjustments related to the Wanda Snap-on acquisition and $2.7 million of currency translation. 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 September 27, 2008, and December 29, 2007, is as follows:

(Amounts in millions)	September 27, 2008	December 29, 2007
Cash surrender value of life insurance	$ 8.7	$ 8.3
Policy loans outstanding	(6.1)	(5.9)
Net cash value of life insurance	$ 2.6	$ 2.4

Note 6: Exit and Disposal Activities

Snap-on recorded costs associated with exit and disposal activities of $1.4 million and $8.0 million for the three and nine month periods ended September 27, 2008, respectively, and $1.8 million and $16.5 million for the three and nine month periods ended September 29, 2007, respectively.

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	Sept. 27,	Sept. 29,	Sept. 27,	Sept. 29,
Exit and disposal costs:	2008	2007	2008	2007
Cost of goods sold	$ (0.4)	$ 1.8	$ 1.6	$ 13.1
Operating expenses	1.8		6.4	3.4
Total expense	$ 1.4	$ 1.8	$ 8.0	$ 16.5

Of the $1.4 million and $8.0 million of costs incurred during the three and nine month periods ended September 27, 2008, $0.8 million and $5.8 million, respectively, qualified for accrual treatment. Costs associated with exit and disposal activities in 2008 primarily related to headcount reductions from (i) the realignment of the field sales organization in the United States; (ii) the consolidation of sales and services support in Europe; and (iii) various management and other realignment actions at other Snap-on facilities.

12

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Snap-on s exit and disposal accrual activity for the first nine months of 2008 was as follows:

(Amounts in millions)	Balance at Dec. 29, 2007	Six Months Activity Additions	Usage	Balance at June 28, 2008	Third Quarter Additions (Reversals)	Usage	Balance at Sept. 27, 2008
Severance costs:							
Commercial & Industrial	$ 7.7	$ 1.3	$ (2.7)	$ 6.3	$ 0.5	$ (1.6)	$ 5.2
Snap-on Tools	0.8	1.7	(1.1)	1.4	0.4	(0.7)	1.1
Diagnostics & Information	3.2	1.5	(2.3)	2.4	(0.2)	(0.5)	1.7
Corporate		0.2	(0.1)	0.1		(0.1)	
Facility-related costs:							
Snap-on Tools	0.1	0.3	(0.1)	0.3	0.1		0.4
Diagnostics & Information	0.3		(0.3)				
Corporate	0.1			0.1			0.1
Total	$ 12.2	$ 5.0	$ (6.6)	$ 10.6	$ 0.8	$ (2.9)	$ 8.5

Exit and disposal accrual usage totaled $2.9 million and $9.5 million during the three and nine month periods ended September 27, 2008, respectively. Since year-end 2007, Snap-on has reduced headcount by approximately 154 employees as part of its restructuring actions. While the majority of the exit and disposal accrual will be utilized in 2008, certain facility-related costs will extend beyond 2008 primarily due to longer-term lease obligations.

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 judgment under prevailing circumstances.

Note 7: Income Taxes

Snap-on s effective income tax rate on earnings before equity earnings and minority interests was 33.2% in the first nine months of 2008 and 33.1% in the comparable prior-year period. Snap-on anticipates that its full year effective income tax rate on earnings before equity earnings and minority interests will approximate 33.3% in 2008.

Snap-on and its subsidiaries file income tax returns in the United States and in various state, local and foreign jurisdictions. Snap-on and its subsidiaries are routinely examined by tax authorities in certain of these jurisdictions and it is reasonably possible that some of these examinations may be resolved within the next 12 months, which could result in Snap-on s gross unrecognized tax benefits decreasing by a range of zero to $11 million over the next 12 months.

Note 8: Short-term and Long-term Debt

Notes payable and long-term debt as of September 27, 2008, was $515.9 million. As of December 29, 2007, notes payable and long-term debt was $517.9 million. Notes payable and current maturities of long-term debt of $15.3 million at September 27, 2008, included $13.0 million of notes payable and $2.3 million of current maturities of long-term debt. No commercial paper was outstanding at September 27, 2008, or December 29, 2007. Long-term debt of $500.6 million

13

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

as of September 27, 2008, includes $150 million of unsecured floating rate notes that mature in 2010, $200 million of unsecured 6.25% notes that mature in 2011, $150 million of unsecured 5.50% notes that mature in 2017, and $0.6 million of other long-term debt.

CIT and Snap-on have agreed to lend funds to support SOC s working capital requirements on a 50/50 basis. As of September 27, 2008, and December 29, 2007, no amounts were loaned to SOC by either Snap-on or CIT pursuant to this agreement.

As of September 27, 2008, Snap-on had a five-year, $500 million multi-currency revolving credit facility that terminates on August 10, 2012. The $500 million revolving credit facility s financial covenant requires that Snap-on maintain, as of each fiscal quarter end, (i) a ratio of total debt to the sum of total debt plus shareholders equity of not greater than 0.60 to 1.00; or (ii) a ratio of total debt to earnings before interest, taxes, depreciation and amortization (EBITDA) for the preceding four fiscal quarters then ended of not greater than 3.50 to 1.00. As of September 27, 2008, Snap-on was in compliance with all covenants of this revolving credit facility.

As of September 27, 2008, Snap-on also had $20 million of unused available debt capacity under its committed bank lines of credit. The committed bank lines consist of two $10 million lines of credit that expire on July 28, 2009, and August 30, 2009. As of September 27, 2008, Snap-on had $520 million of unused available debt capacity under the terms of its revolving credit facility and its committed bank lines of credit.

Note 9: Financial Instruments

Snap-on accounts for its hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 138 and SFAS No. 149. These standards require that all derivative instruments be reported in the consolidated financial statements at fair value. Changes in the fair value of derivatives are to be recorded each period in earnings or on the accompanying Condensed Consolidated Balance Sheets in Accumulated other comprehensive income (loss), depending on the type of hedged transaction and whether the derivative is designated and effective as part of a hedged transaction. Gains or losses on derivative instruments recorded in Accumulated other comprehensive income (loss) must be reclassified as earnings in the period in which earnings are affected by the underlying hedged item and the ineffective portion of all hedges must be recognized in earnings in the period such portion is determined to be ineffective.

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.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

At September 27, 2008, Snap-on had $216.0 million of net foreign exchange forward buy contracts outstanding comprised of buy contracts of $75.6 million in euros, $73.8 million in Swedish kronor, $27.0 million in Australian dollars, $22.1 million in British pounds, $9.0 million in Canadian dollars, $6.4 million in Singapore dollars, $3.5 million in Norwegian krone, $3.1 million in Danish kroner, and $0.9 million in other currencies, and various sell contracts in other currencies totaling $5.4 million. At December 29, 2007, Snap-on had $156.1 million of net foreign exchange forward buy contracts outstanding comprised of buy contracts of $65.1 million in Swedish kronor, $44.4 million in euros, $21.8 million in Australian dollars, $16.4 million in British pounds, $3.5 million in Canadian dollars, $2.7 million in Singapore dollars, and $5.7 million in other currencies, and various sell contracts in other currencies of $3.5 million. 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 both September 27, 2008, and December 29, 2007.

Treasury Lock Agreements: Snap-on enters into treasury lock agreements to manage the risks associated with changing benchmark interest rates on its extended credit installment loans that are sold to CIT. Treasury lock agreements are accounted for as cash flow hedges. The effective differentials paid or received on treasury lock agreements are recognized as adjustments to Financial services revenue in the accompanying Condensed Consolidated Statements of Earnings. During the third quarter and for the nine months ended September 27, 2008, Snap-on settled treasury locks of $65.0 million and $116.0 million, respectively, concurrent with the settlement of extended credit installment receivables sold to CIT. The notional amount of treasury locks outstanding and designated as cash flow hedges was $117.0 million as of September 27, 2008. There were no treasury locks outstanding as of December 29, 2007.

Changes in the fair value of derivative financial instruments qualifying for hedge accounting are reflected as derivative assets or liabilities with the ineffective portion of gains or losses reflected in earnings in the period of change. For all fair value hedges qualifying for hedge accounting, the net accumulated derivative asset at September 27, 2008, was $0.2 million. At September 27, 2008, the maximum maturity date of any fair value hedge was three years and the maximum maturity date of any cash flow hedge was six months. During the next 12 months, Snap-on expects to reclassify into earnings net losses from Accumulated other comprehensive income (loss) of approximately $0.8 million after tax at the time the underlying hedge transactions are realized. During the three and nine month periods ended September 27, 2008, cash flow hedge and fair value hedge ineffectiveness was not material.

Counterparty Risk Snap-on is exposed to credit losses in the event of non-performance by the counterparties to its interest rate swap, foreign exchange and treasury lock agreements. Snap-on does not obtain collateral or other security to support financial instruments subject to credit risk, but monitors the credit standing of the counterparties and enters into

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

agreements only with financial institution counterparties with a credit rating of A- or better. Snap-on does not anticipate non-performance by its counterparties.

Note 10: Pension Plans

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

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Service cost	$ 4.2	$ 5.4	$ 14.9	$ 16.1
Interest cost	13.0	12.3	39.8	37.0
Expected return on assets	(17.3)	(16.1)	(51.5)	(48.2)
Actuarial loss	0.2	1.8	0.8	5.3
Prior service cost	0.4	0.3	0.9	0.9
Net transition asset		(0.1)		(0.2)
Net pension expense	$ 0.5	$ 3.6	$ 4.9	$ 10.9

In 2008, Snap-on expects to make contributions of approximately $10.0 million and $1.2 million to its foreign and domestic pension plans, respectively.

Note 11: Retiree Health Care

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

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Service cost	$ 0.1	$ 0.1	$ 0.3	$ 0.3
Interest cost	1.1	1.1	3.3	3.2
Expected return on plan assets	(0.3)		(0.9)	
Unrecognized net (gain) loss	0.2	(0.3)	(0.3)	(0.8)
Prior service credit	(0.1)	(0.1)	(0.3)	(0.3)

Net postretirement expense	$	1.0	$	0.8	$	2.1	$	2.4

Note 12: 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 September 27, 2008, the 2001 Plan had 2,750,553 shares available for future grants; the company uses treasury stock to deliver shares issued under the 2001 Plan.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The compensation cost charged against income for the 2001 Plan was $3.9 million and $11.9 million for the three and nine month periods ended September 27, 2008, respectively, and $4.9 million and $14.2 million for the three and nine month periods ended September 29, 2007, respectively. Cash received from option exercises during the three and nine month periods ended September 27, 2008, totaled $2.3 million and $41.3 million, respectively. Cash received from option exercises during the three and nine month periods ended September 29, 2007, totaled $2.7 million and $38.1 million, respectively. The tax benefit realized from the exercise of share-based payment arrangements was $0.5 million and $10.9 million for the three and nine month periods ended September 27, 2008, respectively, and $0.5 million and $6.8 million for the three and nine month periods ended September 29, 2007, respectively.

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 of the grant date of the award. Beginning in 2007, most stock option grants vest over a three-year period beginning on the first anniversary of the grant date of the award.

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 nine month periods ended September 27, 2008, and September 29, 2007, using the Black-Scholes valuation model; there were no stock options granted in the three month periods ended September 27, 2008, and September 29, 2007:

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Expected term of option *(in years)*	5.84	6.31
Expected volatility factor	25.97%	25.75%
Expected dividend yield	2.79%	3.05%
Risk-free interest rate	2.72%	4.68%

A summary of stock option activity as of and for the nine month period ended September 27, 2008, is presented below:

	Shares (in thousands)	Exercise Price Per Share (*)	Remaining Contractual Term (*) (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 29, 2007	2,350	$ 37.98		
Granted	542	51.93		
Exercised	(1,057)	37.05		
Forfeited	(41)	47.94		
Outstanding at September 27, 2008	1,794	42.28	7.36	$ 17.8
Exercisable at September 27, 2008	993	35.22	5.88	17.4

(*) Weighted-average

17

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The weighted-average grant date fair value of options granted during the nine month periods ended September 27, 2008, and September 29, 2007, was $10.81 and $12.17, respectively. The intrinsic value of options exercised during both of the nine month periods ended September 27, 2008, and September 29, 2007, was $18.6 million. The fair value of stock options vested during the nine month periods ended September 27, 2008, and September 29, 2007, was $4.1 million and $4.2 million, respectively.

As of September 27, 2008, there was $6.7 million of unrecognized compensation cost related to non-vested stock option compensation arrangements granted under the 2001 Plan that is expected to be recognized as a charge to earnings over a weighted-average period of 2.3 years.

Performance Awards

Performance awards granted in 2006, 2007 and 2008 pursuant to the 2001 Plan are earned and expensed using the fair value of the performance award over a contractual term of three years based on the company s performance. Vesting of the performance awards is dependent upon performance relative to pre-defined goals for revenue growth and return on assets for the applicable three-year grant period. 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 represents the right to receive cash equal to the fair market value of a share of Snap-on common stock on the respective date of grant. The grant date fair value of Snap-on common stock was $39.35 for grants issued in 2006, $50.22 for grants issued in 2007, and $51.75 for grants issued in 2008.

The fair value of the performance awards are estimated on the date of grant using the Black-Scholes valuation model. The company uses the vesting period of the performance awards as the expected term of the awards granted. Expected volatility is based on the historical volatility of the company s stock for the length of time corresponding to the expected term of the performance award. The risk-free interest rate is based on the U.S. treasury yield curve on the grant date for the length of time corresponding to the expected term of the performance award. The following weighted-average assumptions were used in calculating the fair value of performance awards granted during the nine month periods ended September 27, 2008, and September 29, 2007, using the Black-Scholes valuation model:

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Expected term of performance award *(in years)*	3.0	3.0
Expected volatility factor	26.16%	20.52%
Risk-free interest rate	2.11%	4.73%

The weighted-average grant date fair value of performance awards granted during the nine month periods ended September 27, 2008, and September 29, 2007, was $51.75 and $50.22, respectively. Performance share awards of 91,977 shares were paid out during the first nine months of 2008; no performance share awards were paid out during the nine month period ended September 29, 2007. As performance share awards generally vest only at the end of the performance award period, no shares vested during the nine month periods ended September 27, 2008, and September 29, 2007.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The status of the company s non-vested performance share awards and changes during the nine month period ended September 27, 2008, is presented below:

	Shares	Grant-Date Fair Value
	(in thousands)	(*)
Non-vested performance awards at December 29, 2007	367	$ 42.20
Granted	180	51.75
Vested		
Forfeited or expired	(25)	
Non-vested performance awards at September 27, 2008	522	46.98

(*) Weighted-average

As of September 27, 2008, there was $12.0 million of unrecognized compensation cost related to non-vested performance share awards granted under the 2001 Plan that is expected to be recognized as a charge to earnings over a weighted-average period of 1.7 years.

Stock Appreciation Rights (SARs)

The company also issues SARs to certain key non-U.S. employees. SARs are granted with an exercise price equal to the market value of a share of Snap-on s common stock on the date of grant and have a contractual term of ten years and, for SARs granted prior to 2007, vest in two annual increments beginning on the first anniversary following the grant date of the award. Starting in 2007, SARs granted 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 s common stock price on the date of exercise over the grant price. SARs have no effect on dilutive shares or shares outstanding as any appreciation of Snap-on s common stock value over the grant price is paid in cash and not in common stock.

The fair value of SARs is 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 SARs. The expected dividend yield is based on the company s historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve in effect as of the reporting date for the length of time corresponding to the expected term of the SARs. The following weighted-average assumptions were used in calculating the fair value of SARs granted during the nine month periods ended September 27, 2008, and September 29, 2007, using the Black-Scholes valuation model; there were no SARs granted during the three month period ended September 27, 2008, and September 27, 2007:

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Expected term of SARs *(in years)*	5.51	5.55
Expected volatility factor	25.61%	25.37%
Expected dividend yield	2.72%	3.05%
Risk-free interest rate	3.05%	4.23%

The total intrinsic value of SARs exercised was $0.7 million and $1.7 million, during the three and nine month periods ended September 27, 2008, respectively, and $0.1 million and $1.6 million for the three and nine month periods ended September 29, 2007, respectively. The total fair value of SARs vested during the first nine months of 2008 and 2007 was

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

$0.4 million and $1.5 million, respectively. No SARs vested during the three month periods ended September 27, 2008, and September 29, 2007.

The status of the company s non-vested SARs as of September 27, 2008, is presented below:

	SARs (in thousands)	Fair Value (*)
Non-vested SARs at December 29, 2007	186	$ 9.24
Granted	119	10.78
Vested	(87)	
Forfeited or expired	(11)	
Non-vested SARs at September 27, 2008	207	11.72

(*) Weighted-average

As of September 27, 2008, there was $1.6 million of unrecognized compensation cost related to non-vested SARs granted under the 2001 Plan that is expected to be recognized as a charge to earnings over a weighted-average period of 2.0 years.

Restricted Stock Awards

The company granted 20,895 shares of restricted stock to members of the Board of Directors (Board) during the nine months ended September 27, 2008, pursuant to the 2001 Plan. All restrictions will lapse upon the recipient s termination of service as a director or in the event of a change in control, as defined in the 2001 Plan.

Note 13: Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Common shares* outstanding	57,449,501	57,682,515	57,521,459	58,002,351
Dilutive effect of stock-based instruments	722,104	710,157	646,253	728,811
Common shares* outstanding, assuming dilution	58,171,605	58,392,672	58,167,712	58,731,162

(*) Weighted-average

The dilutive effect of the potential exercise of outstanding stock-based instruments to purchase common shares is calculated using the treasury stock method. Options to purchase 12,000 shares and 110,386 shares of Snap-on common stock for the three and nine month periods ended September 27, 2008, respectively, and options to purchase 641,165 shares and 445,043 shares of Snap-on common stock for the three and nine month periods ended September 29, 2007, respectively, were not included in the computations of diluted earnings per share as the exercise price of the options was 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.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 14: Comprehensive Income (Loss)

Total comprehensive income (loss) for the three and nine month periods ended September 27, 2008, and September 29, 2007, was as follows:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net earnings	$ 54.6	$ 41.1	$ 178.1	$ 123.9
Foreign currency translation	(73.5)	44.3	(10.3)	69.9
Change in fair value of derivative instruments, net of tax	(0.8)		(0.8)	0.1
Total comprehensive income (loss)	$ (19.7)	$ 85.4	$ 167.0	$ 193.9

Note 15: 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 and nine month periods September 27, 2008, and September 29, 2007:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Warranty reserve:				
Beginning of period	$ 17.2	$ 19.0	$ 17.1	$ 17.3
Additions	2.7	4.5	8.3	13.8
Usage	(3.1)	(3.1)	(8.6)	(10.7)
End of period	$ 16.8	$ 20.4	$ 16.8	$ 20.4

Snap-on has credit risk exposure for certain SOC-originated contracts for franchisee van loans with recourse provisions to Snap-on. At September 27, 2008, and December 29, 2007, $16.0 million and $16.1 million of loans, respectively, with terms ranging from six months to seven 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 franchisee van loans with recourse as of September 27, 2008, was not material.

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

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

21

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 16: Discontinued Operations

On June 29, 2007, Snap-on sold its Sun Electric Systems (SES) business based in the Netherlands for a nominal cash purchase price. The sale of the SES business is reflected in the accompanying Condensed Consolidated Statements of Earnings as Discontinued operations, net of tax. Snap-on recorded an after-tax loss of $8.0 million, or $0.14 per diluted share, in its 2007 results of operations related to the sale and results of operations of SES. For segment reporting purposes, the results of operations of SES were previously included in the Diagnostics & Information Group.

Note 17: Other Income (Expense) - Net

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

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Interest income	$ 1.5	$ 2.0	$ 5.5	$ 6.2
Foreign exchange gain (loss)	0.2	0.5	(0.8)	(0.1)
Other	(0.7)	0.1	(1.4)	(0.2)
Total other income (expense) net	$ 1.0	$ 2.6	$ 3.3	$ 5.9

Note 18: Fair Value Measurements

Derivative assets and liabilities measured at Level 2 fair value on a recurring basis include the following:

(Amounts in millions)	September 27, 2008
Assets:	
Short-term derivative	$ 6.3
Long-term interest rate swaps	0.5
Total assets	$ 6.8
Liabilities:	
Short-term derivative	$ (22.3)
Long-term interest rate swaps	(0.3)

Total liabilities	$	(22.6)

The fair values of the derivative assets and liabilities are measured using quoted prices in active markets for similar assets and liabilities. The short-term derivative assets and liabilities contain (i) foreign exchange forward contracts that are valued monthly based on exchange rates quoted by domestic and foreign banks for similar instruments; and (ii) treasury lock agreements that are valued monthly using bank benchmark rates for similar instruments. The long-term interest rate swaps are valued monthly based on the six-month LIBOR swap rate for similar instruments. The short-term derivative assets and liabilities are included in Prepaid expenses and other assets, and Other accrued liabilities, respectively, and the long-term interest rate swaps are included in Other assets and Other long-term liabilities, respectively, on the accompanying Condensed Consolidated Balance Sheets. See Note 9 for additional information on the company s financial instruments.

22

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 19: 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 Commercial & Industrial Group; (ii) the Snap-on Tools Group; (iii) the Diagnostics & Information Group; and (iv) Financial Services. 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 Snap-on Tools Group consists of the business operations serving the worldwide franchise van channel. 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 Commercial & Industrial, Snap-on Tools, 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; Corporate assets consist of cash and cash equivalents, deferred income taxes, pension assets and certain other assets. 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 September 27, 2008	Three Months Ended September 29, 2007	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Net sales:				
Commercial & Industrial Group	$ 338.1	$ 327.9	$ 1,082.5	$ 981.3
Snap-on Tools Group	269.5	262.0	851.6	834.5
Diagnostics & Information Group	155.1	152.0	474.9	481.1
Segment net sales	762.7	741.9	2,409.0	2,296.9
Intersegment eliminations	(64.9)	(61.2)	(223.5)	(198.6)
Total net sales	$ 697.8	$ 680.7	$ 2,185.5	$ 2,098.3
Financial services revenue	18.0	15.8	61.7	44.0
Total revenues	$ 715.8	$ 696.5	$ 2,247.2	$ 2,142.3
Operating earnings:				
Commercial & Industrial Group	$ 40.7	$ 32.7	$ 128.2	$ 93.3
Snap-on Tools Group	28.2	24.6	97.9	88.6
Diagnostics & Information Group	27.2	22.2	78.6	72.1
Financial Services	4.8	5.6	28.4	14.4
Segment operating earnings	100.9	85.1	333.1	268.4
Corporate	(14.5)	(12.7)	(41.8)	(39.9)
Operating earnings	$ 86.4	$ 72.4	$ 291.3	$ 228.5
Interest expense	(6.8)	(11.6)	(25.1)	(34.6)
Other income (expense) net	1.0	2.6	3.3	5.9
Earnings before income taxes, equity earnings and minority interests	$ 80.6	$ 63.4	$ 269.5	$ 199.8

(Amounts in millions)	September 27, 2008	December 29, 2007
Assets:		
Commercial & Industrial Group	$ 1,160.4	$ 1,113.9
Snap-on Tools Group	494.0	429.9
Diagnostics & Information Group	798.3	808.2
Financial Services	181.6	171.5
Total assets from reportable segments	$ 2,634.3	$ 2,523.5
Corporate	299.8	284.5
Elimination of intersegment receivables	(54.6)	(42.9)
Total assets	$ 2,879.5	$ 2,765.1

SNAP-ON INCORPORATED

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

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

Caution Regarding Forward-Looking Statements:

Statements in this document that are not historical facts, including statements that (i) are in the future tense; (ii) include the words expects, plans, targets, estimates, believes, anticipates, or similar words that reference Snap-on Incorporated (Snap-on or the company) or its managemen (iii) are specifically identified as forward-looking; or (iv) describe Snap-on s or management s future outlook, plans, estimates, objectives or goals, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Snap-on cautions the reader that any forward-looking statements included in this document that are based upon assumptions and estimates were developed by management in good faith and are subject to risks, uncertainties or other factors that could cause (and in some cases have caused) actual results to differ materially from those described in any such statement. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results or regarded as a representation by the company or its management that the projected results will be achieved. For those forward-looking statements, Snap-on cautions the reader that numerous important factors, such as those listed below, as well as those factors discussed in its Annual Report on Form 10-K for the fiscal year ended December 29, 2007, 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 efficiencies and savings from its Rapid Continuous Improvement (RCI) and other cost reduction initiatives, 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 costs 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, 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, disruptions and instability in the credit and financial markets, changes in 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, including health care and postretirement 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.

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

25

SNAP-ON INCORPORATED

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

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RESULTS OF OPERATIONS

Results of operations for the three month periods ended September 27, 2008, and September 29, 2007, are as follows:

	Three Months Ended								
(Amounts in millions)	September 27, 2008			September 29, 2007			Change		
Net sales	$	697.8	100.0%	$	680.7	100.0%	$	17.1	2.5%
Cost of goods sold		(385.6)	-55.3%		(379.8)	-55.8%		(5.8)	-1.5%
Gross profit		312.2	44.7%		300.9	44.2%		11.3	3.8%
Financial services revenue		18.0	100.0%		15.8	100.0%		2.2	13.9%
Financial services expenses		(13.2)	-73.3%		(10.2)	-64.6%		(3.0)	-29.4%
Operating income from financial services		4.8	26.7%		5.6	35.4%		(0.8)	-14.3%
Operating expenses		(230.6)	-33.0%		(234.1)	-34.4%		3.5	1.5%
Operating earnings		86.4	12.1%		72.4	10.4%		14.0	19.3%
Interest expense		(6.8)	-0.9%		(11.6)	-1.7%		4.8	41.4%
Other income (expense) net		1.0	0.1%		2.6	0.4%		(1.6)	-61.5%
Earnings before income taxes, equity earnings and minority interests		80.6	11.3%		63.4	9.1%		17.2	27.1%
Income tax expense		(26.8)	-3.8%		(21.6)	-3.1%		(5.2)	-24.1%
Earnings before equity earnings and minority interests		53.8	7.5%		41.8	6.0%		12.0	28.7%
Equity earnings, net of tax and minority interests		0.8	0.1%		(0.7)	-0.1%		1.5	NM
Net earnings	$	54.6	7.6%	$	41.1	5.9%	$	13.5	32.8%

NM: Not meaningful

Percentage Disclosure: Cost of goods sold, Gross profit and Operating expenses percentages are calculated as a percentage of Net sales. Financial services expenses and Operating income from financial services percentages are calculated as a percentage of Financial services revenue. All other income statement line item percentages are calculated as a percentage of the sum of Net sales and Financial services revenue.

Net sales in the third quarter of 2008 of $697.8 million increased $17.1 million, or 2.5%, from 2007 levels, including $12.1 million from currency translation.

Sales in the Commercial & Industrial Group of $338.1 million increased $10.2 million, or 3.1%. Excluding $12.4 million of currency translation, Commercial & Industrial Group sales declined $2.2 million year over year as continued growth in emerging markets, higher sales of power tools, increased sales to industrial customers, and continued strong sales of imaging aligner units, were more than offset by lower sales of professional tools in Europe and by sales declines in other wheel service equipement worldwide. Sales in the Snap-on Tools Group of $269.5 million increased $7.5 million, or 2.9%, primarily due to higher sales in the company s international franchise operations; currency translation contributed $0.4 million of the sales increase. In the Diagnostics & Information Group, sales of $155.1 million were up $3.1 million from 2007 levels as higher Original Equipment Manufacturer (OEM) program sales, increased sales of diagnostics products in Europe, and higher sales of Mitchell1 information products were partially offset by lower sales of diagnostics products in North America and by lower sales at Snap-on Business Solutions, including expected lower sales from the planned exit of certain non-core product lines.

SNAP-ON INCORPORATED

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

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