SNAP-ON Inc
Form 10-Q
July 19, 2012
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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, 2012**

OR

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

Commission File Number 1-7724

(Exact name of registrant as specified in its charter)

Delaware	**39-0622040**
(State of incorporation)	*(I.R.S. Employer Identification No.)*
2801 80th Street, Kenosha, Wisconsin	**53143**
(Address of principal executive offices)	*(Zip code)*

(262) 656-5200

(Registrant s telephone number, including area code)

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

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

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 ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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 13, 2012
Common Stock, $1.00 par value	58,160,400 shares

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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net sales	$ 737.9	$ 726.7	$ 1,473.1	$ 1,420.4
Cost of goods sold	(388.0)	(384.5)	(775.5)	(747.6)
Gross profit	349.9	342.2	697.6	672.8
Operating expenses	(245.3)	(243.4)	(495.5)	(486.7)
Operating earnings before financial services	104.6	98.8	202.1	186.1
Financial services revenue	39.9	30.3	77.9	56.1
Financial services expenses	(14.3)	(12.8)	(28.4)	(26.1)
Operating earnings from financial services before arbitration settlement	25.6	17.5	49.5	30.0
Arbitration settlement		18.0		18.0
Operating earnings from financial services	25.6	35.5	49.5	48.0
Operating earnings	130.2	134.3	251.6	234.1
Interest expense	(13.9)	(16.3)	(27.8)	(32.6)
Other income (expense) net	0.1	0.9	(0.3)	1.7
Earnings before income taxes and equity earnings	116.4	118.9	223.5	203.2
Income tax expense	(38.3)	(39.8)	(73.5)	(67.0)
Earnings before equity earnings	78.1	79.1	150.0	136.2
Equity earnings, net of tax	0.4	0.8	1.5	1.7
Net earnings	78.5	79.9	151.5	137.9
Net earnings attributable to noncontrolling interests	(2.1)	(1.9)	(4.1)	(3.7)
Net earnings attributable to Snap-on Incorporated	$ 76.4	$ 78.0	$ 147.4	$ 134.2
Net earnings per share attributable to Snap-on Incorporated:				
Basic	$ 1.31	$ 1.34	$ 2.53	$ 2.31
Diluted	1.30	1.33	2.51	2.29

Weighted-average shares outstanding:				
Basic	58.2	58.2	58.2	58.2
Effect of dilutive options	0.6	0.6	0.6	0.5
Diluted	58.8	58.8	58.8	58.7
Dividends declared per common share	$ 0.34	$ 0.32	$ 0.68	$ 0.64

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Comprehensive income (loss):				
Net earnings	$ 78.5	$ 79.9	$ 151.5	$ 137.9
Other comprehensive income (loss):				
Foreign currency translation	(51.6)	14.4	(23.0)	78.9
Change in cash flow hedges	(0.1)	(0.1)	(0.2)	(0.2)
Change in pension and post-retirement plans, net of tax of $9.3 million	17.0		17.0	
Total comprehensive income	$ 43.8	$ 94.2	$ 145.3	$ 216.6
Comprehensive income attributable to noncontrolling interests	(2.1)	(1.9)	(4.1)	(3.7)
Comprehensive income attributable to Snap-on Incorporated	$ 41.7	$ 92.3	$ 141.2	$ 212.9

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 173.6	$ 185.6
Trade and other accounts receivable net	455.8	463.5
Finance receivables net	305.9	277.2
Contract receivables net	49.2	49.7
Inventories net	401.4	386.4
Deferred income tax assets	86.5	92.6
Prepaid expenses and other assets	82.4	75.7
Total current assets	1,554.8	1,530.7
Property and equipment		
Land	19.3	19.8
Buildings and improvements	274.2	274.9
Machinery, equipment and computer software	658.3	632.3
	951.8	927.0
Accumulated depreciation and amortization	(590.2)	(574.1)
Property and equipment net	361.6	352.9
Deferred income tax assets	123.3	125.2
Long-term finance receivables net	463.7	431.8
Long-term contract receivables net	178.4	165.1
Goodwill	786.2	795.8
Other intangibles net	186.0	188.3
Other assets	87.7	83.1
Total assets	$ 3,741.7	$ 3,672.9

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	June 30, 2012	December 31, 2011
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Notes payable and current maturities of long-term debt	$ 14.2	$ 16.2
Accounts payable	141.4	124.6
Accrued benefits	45.0	48.8
Accrued compensation	74.1	91.0
Franchisee deposits	49.1	47.3
Other accrued liabilities	272.3	255.9
Total current liabilities	596.1	583.8
Long-term debt	970.2	967.9
Deferred income tax liabilities	112.0	108.1
Retiree health care benefits	50.3	52.8
Pension liabilities	270.4	317.7
Other long-term liabilities	92.8	95.3
Total liabilities	2,091.8	2,125.6
Commitments and contingencies (Note 13)		
Shareholders equity		
Shareholders equity attributable to Snap-on Incorporated Preferred stock (authorized 15,000,000 shares of $1 par value; none outstanding)		
Common stock (authorized 250,000,000 shares of $1 par value; issued 67,350,670 and 67,335,341 shares)	67.3	67.3
Additional paid-in capital	196.9	181.4
Retained earnings	1,950.9	1,843.7
Accumulated other comprehensive loss	(180.8)	(174.6)
Treasury stock at cost (9,190,324 and 9,110,389 shares)	(400.9)	(386.9)
Total shareholders equity attributable to Snap-on Incorporated	1,633.4	1,530.9
Noncontrolling interests	16.5	16.4
Total shareholders equity	1,649.9	1,547.3
Total liabilities and shareholders equity	$ 3,741.7	$ 3,672.9

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Amounts in millions, except share data)

(Unaudited)

The following summarizes the changes in total shareholders equity for the six month period ending June 30, 2012:

	Shareholders equity attributable to Snap-on Incorporated						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Total Shareholders Equity
Balance at December 31, 2011	$ 67.3	$ 181.4	$ 1,843.7	$ (174.6)	$ (386.9)	$ 16.4	$ 1,547.3
Net earnings for the six months ended June 30, 2012			147.4			4.1	151.5
Foreign currency translation				(23.0)			(23.0)
Change in cash flow hedges				(0.2)			(0.2)
Change in pension and post-retirement plans, net of tax of $9.3 million				17.0			17.0
Cash dividends $0.68 per share			(39.6)				(39.6)
Dividend reinvestment plan and other		0.9	(0.6)			(4.0)	(3.7)
Stock compensation plans		11.9			24.1		36.0
Share repurchases 623,000 shares					(38.1)		(38.1)
Tax benefit from certain stock options		2.7					2.7
Balance at June 30, 2012	$ 67.3	$ 196.9	$ 1,950.9	$ (180.8)	$ (400.9)	$ 16.5	$ 1,649.9

The following summarizes the changes in total shareholders equity for the six month period ending July 2, 2011:

	Shareholders equity attributable to Snap-on Incorporated						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Total Shareholders Equity
Balance at January 1, 2011	$ 67.3	$ 169.2	$ 1,644.1	$ (104.8)	$ (387.3)	$ 15.9	$ 1,404.4
Net earnings for the six months ended July 2, 2011			134.2			3.7	137.9
Foreign currency translation				78.9			78.9
Change in cash flow hedges				(0.2)			(0.2)
Cash dividends $0.64 per share			(37.5)				(37.5)

Dividend reinvestment plan and other		0.9				(3.3)	(2.4)
Stock compensation plans		18.5			15.8		34.3
Share repurchases 577,000 shares					(34.5)		(34.5)
Tax benefit from certain stock options		2.0					2.0
Balance at July 2, 2011	$ 67.3	$ 190.6	$ 1,740.8	$ (26.1)	$ (406.0)	$ 16.3	$ 1,582.9

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Amounts in millions)

(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended July 2, 2011
Operating activities:		
Net earnings	$ 151.5	$ 137.9
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	25.2	24.2
Amortization of other intangibles	13.0	12.4
Provision for losses on finance receivables	8.7	6.4
Provision for losses on non-finance receivables	6.3	8.2
Stock-based compensation expense	16.1	12.2
Excess tax benefits from stock-based compensation	(2.7)	(2.0)
Deferred income tax provision (benefit)	2.6	(4.4)
Loss (gain) on sale of assets	(0.9)	0.1
Changes in operating assets and liabilities:		
(Increase) decrease in trade and other accounts receivable	(2.9)	(3.4)
(Increase) decrease in contract receivables	(13.5)	(22.0)
(Increase) decrease in inventories	(19.4)	(49.8)
(Increase) decrease in prepaid and other assets	(27.0)	(25.0)
Increase (decrease) in accounts payable	20.1	(9.8)
Increase (decrease) in accruals and other liabilities	(20.4)	(70.8)
Net cash provided by operating activities	156.7	14.2
Investing activities:		
Additions to finance receivables	(285.4)	(261.6)
Collections of finance receivables	216.2	170.7
Capital expenditures	(39.8)	(33.3)
Disposal of property and equipment	2.2	2.7
Other		0.2
Net cash used by investing activities	(106.8)	(121.3)
Financing activities:		
Proceeds from short-term borrowings	6.5	11.2
Repayments of short-term borrowings	(8.5)	(12.0)
Net increase in other short-term borrowings	0.2	
Purchase of treasury stock	(38.1)	(34.5)
Proceeds from stock purchase and option plans	22.5	26.3
Cash dividends paid	(39.6)	(37.5)
Excess tax benefits from stock-based compensation	2.7	2.0
Other	(6.3)	(4.2)
Net cash used by financing activities	(60.6)	(48.7)
Effect of exchange rate changes on cash and cash equivalents	(1.3)	1.8

Decrease in cash and cash equivalents	(12.0)	(154.0)
Cash and cash equivalents at beginning of year	185.6	572.2
Cash and cash equivalents at end of period	$ 173.6	$ 418.2
Supplemental cash flow disclosures:		
Cash paid for interest	$ (27.7)	$ (24.3)
Net cash paid for income taxes	(39.1)	(71.9)

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Summary of Accounting Policies

Principles of consolidation and presentation

The Condensed Consolidated Financial Statements include the accounts of Snap-on Incorporated (Snap-on or the company) and its wholly-owned and majority-owned subsidiaries. These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Snap-on s 2011 Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (2011 year end). The company s 2012 fiscal second quarter ended on June 30, 2012; the 2011 fiscal second quarter ended on July 2, 2011.

Snap-on accounts for investments in unconsolidated affiliates where Snap-on has a significant influence under the equity method of accounting. Investments in unconsolidated affiliates of $42.7 million as of June 30, 2012, and $40.7 million as of December 31, 2011, are included in Other assets on the accompanying Condensed Consolidated Balance Sheets. No equity investment dividends were received in the first six months of 2012 or 2011. In the normal course of business, the company may purchase products or services from unconsolidated affiliates; purchases from unconsolidated affiliates were $3.6 million and $5.2 million in the second quarters of 2012 and 2011, respectively, and were $8.1 million and $10.8 million in the first six months of 2012 and 2011, respectively. The Condensed Consolidated Financial Statements do not include the accounts of the company s independent franchisees. Snap-on s Condensed Consolidated Financial Statements are prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). All significant intercompany accounts and transactions have been eliminated.

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

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

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the Condensed Consolidated Financial Statements for the three and six month periods ended June 30, 2012, and July 2, 2011, have been made. Interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year.

Use of Estimates

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

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Financial Instruments

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

New Accounting Standards

Goodwill

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

Fair Value Measurements

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

Disclosures Relating to Comprehensive Income

The FASB issued updated authoritative guidance in June 2011 to amend the presentation of comprehensive income in financial statements. The FASB also issued an accounting standards update in December 2011 that indefinitely deferred certain financial statement presentation provisions contained in its original June 2011 guidance. The guidance, which became effective for Snap-on on a retrospective basis at the beginning of its 2012 fiscal year, gives companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. Under both alternatives, companies are required to annually present each component of comprehensive income. The adoption of this updated authoritative guidance impacted the presentation of the company s Condensed Consolidated Statements of Comprehensive Income, but it did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 2: Accounts Receivable

Trade and Other Accounts Receivable

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

The components of Snap-on s trade and other accounts receivable as of June 30, 2012, and December 31, 2011, are as follows:

(Amounts in millions)	June 30, 2012	December 31, 2011
Trade and other accounts receivable	$ 476.8	$ 485.5
Allowances for doubtful accounts	(21.0)	(22.0)
Total trade and other accounts receivable net	$ 455.8	$ 463.5

Finance and Contract Receivables

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

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

During both the six months ended June 30, 2012, and the fiscal year ended December 31, 2011, Snap-on did not purchase or sell any finance or contract receivables.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The components of Snap-on s current finance and contract receivables as of June 30, 2012, and December 31, 2011, are as follows:

(Amounts in millions)	June 30, 2012	December 31, 2011
Finance receivables, net of unearned finance charges of $8.4 million and $7.6 million	$ 314.4	$ 285.3
Contract receivables, net of unearned finance charges of $9.2 million and $9.1 million	50.7	51.2
Total	365.1	336.5
Allowances for doubtful accounts:		
Finance receivables	(8.5)	(8.1)
Contract receivables	(1.5)	(1.5)
Total	(10.0)	(9.6)
Total current finance and contract receivables net	$ 355.1	$ 326.9
Finance receivables net	$ 305.9	$ 277.2
Contract receivables net	49.2	49.7
Total current finance and contract receivables net	$ 355.1	$ 326.9

The components of Snap-on s finance and contract receivables with payment terms beyond one year as of June 30, 2012, and December 31, 2011, are as follows:

(Amounts in millions)	June 30, 2012	December 31, 2011
Finance receivables, net of unearned finance charges of $10.0 million and $9.4 million	$ 480.6	$ 447.9
Contract receivables, net of unearned finance charges of $17.0 million and $12.1 million	181.1	167.7
Total	661.7	615.6
Allowances for doubtful accounts:		
Finance receivables	(16.9)	(16.1)
Contract receivables	(2.7)	(2.6)
Total	(19.6)	(18.7)
Total long-term finance and contract receivables net	$ 642.1	$ 596.9

Finance receivables net	$ 463.7	$ 431.8
Contract receivables net	178.4	165.1
Total long-term finance and contract receivables net	$ 642.1	$ 596.9

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

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

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

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

The accrual of interest and other fees is resumed when the finance or contract receivable becomes contractually current and collection of all remaining contractual amounts due is reasonably assured. Finance and contract receivables are evaluated for impairment on a collective basis. A receivable is impaired when it is probable that all amounts related to the receivable will not be collected according to the contractual terms of the loan agreement. Impaired receivables are covered by the company s finance and contract allowances for doubtful accounts reserves and are charged-off against the reserves when appropriate. As of June 30, 2012, and December 31, 2011, there were $11.6 million and $11.5 million, respectively, of impaired finance receivables and, as of both dates, there were $0.7 million of impaired contract receivables.

The aging of finance and contract receivables as of June 30, 2012, and December 31, 2011, is as follows:

(Amounts in millions)	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Not Past Due	Total	Greater Than 90 Days Past Due and Accruing
June 30, 2012:							
Finance receivables	$ 7.7	$ 4.6	$ 6.4	$ 18.7	$ 776.3	$ 795.0	$ 4.5
Contract receivables	0.9	0.5	0.8	2.2	229.6	231.8	0.3
December 31, 2011:							
Finance receivables	$ 8.0	$ 3.0	$ 6.6	$ 17.6	$ 715.6	$ 733.2	$ 4.8
Contract receivables	0.9	0.4	0.6	1.9	217.0	218.9	0.2

The amount of performing and nonperforming finance and contract receivables based on payment activity as of June 30, 2012, and December 31, 2011, is as follows:

	June 30, 2012		December 31, 2011	
(Amounts in millions)	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Performing	$ 783.4	$ 231.1	$ 721.7	$ 218.2

Nonperforming	11.6	0.7	11.5	0.7
Total	$ 795.0	$ 231.8	$ 733.2	$ 218.9

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The amount of finance and contract receivables on nonaccrual status as of June 30, 2012, and December 31, 2011, is as follows:

(Amounts in millions)	June 30, 2012	December 31, 2011
Finance receivables	$ 7.2	$ 6.8
Contract receivables	0.7	0.7

The following is a rollforward of the allowances for credit losses for finance and contract receivables for the three and six months ended June 30, 2012:

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
(Amounts in millions)	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Allowances for doubtful accounts:				
Beginning of period	$ 24.5	$ 4.4	$ 24.2	$ 4.1
Provision for bad debt expense	4.8	0.1	8.7	0.6
Charge-offs	(4.9)	(0.4)	(9.6)	(0.7)
Recoveries	1.0	0.1	2.1	0.2
End of period	$ 25.4	$ 4.2	$ 25.4	$ 4.2

The following is a rollforward of the allowances for credit losses for finance and contract receivables for the three and six months ended July 2, 2011:

	Three Months Ended July 2, 2011		Six Months Ended July 2, 2011	
(Amounts in millions)	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Allowances for doubtful accounts:				
Beginning of period	$ 21.1	$ 4.8	$ 21.5	$ 4.0
Provision for bad debt expense	4.6	(0.3)	6.4	0.7
Charge-offs	(3.5)	(0.3)	(6.7)	(0.7)
Recoveries	1.0	0.4	2.0	0.6
End of period	$ 23.2	$ 4.6	$ 23.2	$ 4.6

Prior to the 2009 termination of the financial services joint venture with CIT, SOC sold substantially all new finance and contract loan originations to CIT on a limited recourse basis; SOC retained the right to service such loans for a contractual servicing fee. As of June 30, 2012, the remaining portfolio of receivables owned by CIT that is being serviced by SOC was approximately $80.5 million, as compared to $119.5 million at December 31, 2011. Contractual servicing fees were $0.3 million and $0.8 million for the three and six month periods ended June 30, 2012, respectively, and $0.6 million and $1.4 million for the three and six month periods ended July 2, 2011, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 3: Inventories

Inventories by major classification were as follows:

(Amounts in millions)	June 30, 2012	December 31, 2011
Finished goods	$ 352.2	$ 343.8
Work in progress	38.6	32.2
Raw materials	81.6	80.5
Total FIFO value	472.4	456.5
Excess of current cost over LIFO cost	(71.0)	(70.1)
Total inventories net	$ 401.4	$ 386.4

Inventories accounted for using the first-in, first-out (FIFO) method as of June 30, 2012, and December 31, 2011, approximated 61% and 62%, respectively, of total inventories. The company accounts for its non-U.S. inventory on the FIFO basis. As of June 30, 2012, approximately 28% of the company s U.S. inventory was accounted for using the FIFO basis and 72% was accounted for using the last-in, first-out (LIFO) basis. There were no LIFO inventory liquidations in the three and six month periods ended June 30, 2012, and July 2, 2011.

Note 4: Intangible and Other Assets

The changes in the carrying amount of goodwill by segment for the six month period ended June 30, 2012, are as follows:

(Amounts in millions)	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Total
Balance as of December 31, 2011	$ 297.0	$ 12.5	$ 486.3	$ 795.8
Currency translation	(8.7)		(0.9)	(9.6)
Balance as of June 30, 2012	$ 288.3	$ 12.5	$ 485.4	$ 786.2

Additional disclosures related to other intangible assets as of June 30, 2012, and December 31, 2011, are as follows:

	June 30, 2012		December 31, 2011	
(Amounts in millions)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization

Amortized other intangible assets:				
Customer relationships	$ 134.5	$ (49.6)	$ 134.4	$ (45.3)
Developed technology	19.2	(17.8)	19.1	(16.8)
Internally developed software	95.8	(58.8)	85.1	(52.0)
Patents	27.3	(18.4)	27.2	(17.8)
Trademarks	2.5	(1.3)	2.4	(1.2)
Other	7.0	(1.0)	7.0	(0.9)
Total	286.3	(146.9)	275.2	(134.0)
Non-amortized trademarks	46.6		47.1	
Total other intangible assets	$ 332.9	$ (146.9)	$ 322.3	$ (134.0)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Snap-on completed its annual impairment testing of goodwill and other indefinite-lived intangible assets in the second quarter of 2012, the results of which did not result in any impairment. Significant and unanticipated changes in circumstances, such as significant declines in profitability and cash flow due to significant and long-term deterioration in macroeconomic, industry and market conditions, loss of key customers, changes in technology or markets, significant changes in key personnel or litigation, significant and sustained decrease in share price and/or other events, including effects from the sale or disposal of a reporting unit, could require a provision for impairment of goodwill and/or other intangible assets in a future period. As of June 30, 2012, the company has no accumulated impairment losses.

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

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

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

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

The aggregate amortization expense was $6.6 million and $13.0 million for the three and six month periods ended June 30, 2012, respectively, and $6.5 million and $12.4 million for the three and six month periods ended July 2, 2011, respectively. Based on current levels of amortizable intangible assets and estimated weighted-average useful lives, estimated annual amortization expense is expected to be $25.3 million in 2012, $19.8 million in 2013, $13.7 million in 2014, $10.2 million in 2015, $9.2 million in 2016 and $9.0 million in 2017.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 5: Exit and Disposal Activities

Snap-on recorded costs associated with exit and disposal activities for the three and six month periods ended June 30, 2012, and July 2, 2011, as follows:

	Three Months Ended		Six Months Ended	
(Amounts in millions)	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Exit and disposal costs:				
Cost of goods sold:				
Commercial & Industrial Group	$ 2.6	$	$ 2.7	$ 0.2
Snap-on Tools Group	6.9	0.7	7.0	3.0
Repair Systems & Information Group		(0.1)	0.2	(0.1)
Total cost of goods sold	9.5	0.6	9.9	3.1
Operating expenses:				
Commercial & Industrial Group	0.6	0.5	4.0	0.5
Snap-on Tools Group		0.1	0.1	0.6
Repair Systems & Information Group	0.1	0.5	0.2	0.5
Corporate		0.2		0.2
Total operating expenses	0.7	1.3	4.3	1.8
Total exit and disposal costs:				
Commercial & Industrial Group	3.2	0.5	6.7	0.7
Snap-on Tools Group	6.9	0.8	7.1	3.6
Repair Systems & Information Group	0.1	0.4	0.4	0.4
Corporate		0.2		0.2
Total exit and disposal costs	$ 10.2	$ 1.9	$ 14.2	$ 4.9

Of the $10.2 million and $14.2 million of costs incurred during the three and six month periods ended June 30, 2012, respectively, $2.8 million and $6.5 million, respectively, qualified for accrual treatment. Costs associated with exit and disposal activities in 2012 primarily related to the settlement of a pension plan as a result of the 2011 closure of the company s Newmarket, Canada, facility and other headcount reductions, largely to improve the company s cost structure in Europe. In the three and six month periods ended June 30, 2012, the Snap-on Tools Group incurred costs of $6.8 million (included in Cost of goods sold above) related to the Newmarket pension settlement.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Snap-on s exit and disposal accrual activity for the first and second quarters of 2012 is as follows:

		First Quarter			Second Quarter		
(Amounts in millions)	Balance at December 31, 2011	Additions	Usage	Balance at March 31, 2012	Additions	Usage	Balance at June 30, 2012
Severance costs:							
Commercial & Industrial Group	$ 3.6	$ 3.6	$ (2.5)	$ 4.7	$ 2.9	$ (1.2)	$ 6.4
Snap-on Tools Group	0.6	(0.1)	(0.1)	0.4	(0.1)	(0.2)	0.1
Repair Systems & Information Group	3.8	0.2	(0.7)	3.3		(1.0)	2.3
Facility-related costs:							
Commercial & Industrial Group	0.4		(0.1)	0.3		(0.1)	0.2
Total	$ 8.4	$ 3.7	$ (3.4)	$ 8.7	$ 2.8	$ (2.5)	$ 9.0

The majority of the exit and disposal accrual as of June 30, 2012, is expected to be utilized in 2012.

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

Note 6: Income Taxes

Snap-on s effective income tax rate on earnings attributable to Snap-on was 33.5% and 33.6% in the first six months of 2012 and 2011, respectively

For the six months ended June 30, 2012, Snap-on s unrecognized tax benefits increased by $0.6 million primarily due to tax positions that Snap-on expects to take in future tax returns and the accrual of interest on tax positions taken in prior years.

Snap-on and its subsidiaries file income tax returns in the United States and in various state, local and foreign jurisdictions. It is reasonably possible that certain unrecognized tax benefits may either be settled with taxing authorities or the statutes of limitations for such items may lapse within the next 12 months, causing Snap-on s gross unrecognized tax benefits to decrease by a range of zero to $1.5 million. Over the next 12 months, Snap-on anticipates taking certain tax positions on various tax returns for which the related tax benefit does not meet the recognition threshold. Accordingly, Snap-on s gross unrecognized tax benefits may increase by a range of zero to $2.6 million over the next 12 months for uncertain tax positions expected to be taken in future tax filings.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 7: Short-term and Long-term Debt

Short-term and long-term debt as of June 30, 2012, and December 31, 2011, consisted of the following:

(Amounts in millions)	June 30, 2012	December 31, 2011
5.85% unsecured notes due 2014	$ 100.0	$ 100.0
5.50% unsecured notes due 2017	150.0	150.0
4.25% unsecured notes due 2018	250.0	250.0
6.70% unsecured notes due 2019	200.0	200.0
6.125% unsecured notes due 2021	250.0	250.0
Other debt*	34.4	34.1
	984.4	984.1
Less: notes payable and current maturities of long-term debt	(14.2)	(16.2)
Total long-term debt	$ 970.2	$ 967.9

* Includes fair value adjustments related to interest rate swaps.

Snap-on has a five-year, $500 million multi-currency revolving credit facility that terminates on December 8, 2016; as of June 30, 2012, no amounts were outstanding under this facility. Borrowings under the $500 million revolving credit facility bear interest at varying rates based on Snap-on s then-current, long-term debt ratings. The $500 million revolving credit facility s financial covenant requires that Snap-on maintain, as of each fiscal quarter end, either (i) a ratio of total debt to the sum of total debt plus shareholders equity (including noncontrolling interests) of not greater than 0.60 to 1.00; or (ii) a ratio of total debt to the sum of net income plus interest expense, income taxes, depreciation, amortization and other non-cash or extraordinary charges for the preceding four fiscal quarters then ended of not greater than 3.50 to 1.00. As of June 30, 2012, the company s actual ratios of 0.37 and 1.65, respectively, were both within the permitted ranges set forth in this financial covenant.

Snap-on also has a 364-day loan and servicing agreement that allows Snap-on to borrow up to $200 million (subject to borrowing base requirements) through the pledging of finance receivables under an asset-backed commercial paper conduit facility. Although Snap-on can provide no assurances, as of the date of this Form 10-Q, it is management s intent to renew the loan and servicing agreement, which expires on September 28, 2012. As of June 30, 2012, no amounts were outstanding under the loan and servicing agreement.

In addition to the financial covenant required by the $500 million multi-currency revolving credit facility, discussed above, Snap-on s debt agreements and credit facilities, including the $200 million loan and servicing agreement, also contain certain usual and customary borrowing, affirmative, negative and maintenance covenants. As of June 30, 2012, Snap-on was in compliance with all covenants of its debt agreements and credit facilities.

Note 8: Financial Instruments

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

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

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

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

At June 30, 2012, Snap-on had $205.4 million of net foreign exchange forward buy contracts outstanding comprised of buy contracts of $95.2 million in euros, $62.4 million in Swedish kronor, $36.6 million in British pounds, $35.5 million in Australian dollars, $22.7 million in Singapore dollars, $6.8 million in Hong Kong dollars, $5.8 million in Norwegian kroner, $5.0 million in South Korean won, and $6.1 million in other currencies, and sell contracts comprised of $53.3 million in Canadian dollars, $11.0 million in Japanese yen, $3.8 million in Turkish lira, and $2.6 million in other currencies. At December 31, 2011, Snap-on had $183.8 million of net foreign currency forward buy contracts outstanding comprised of buy contracts including $85.2 million in euros, $59.8 million in Swedish kronor, $35.3 million in British pounds, $32.4 million in Australian dollars, $18.8 million in Singapore dollars, $6.1 million in Hong Kong dollars, $5.7 million in Norwegian kroner, $4.1 million in South Korean won, $4.1 million in Danish kroner, and $2.3 million in Chilean pesos, and sell contracts including $51.1 million in Canadian dollars, $12.3 million in Japanese yen, $3.6 million in Turkish lira, and $3.0 million in other currencies.

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

Interest Rate Swap Agreements: Snap-on enters into interest rate swap agreements (interest rate swaps) to manage risks associated with changing interest rates related to the company s fixed rate borrowings. Interest rate swaps are accounted for as fair value hedges. The differentials paid or received on interest rate swaps are recognized as adjustments to Interest expense on the accompanying Consolidated Statements of Earnings. The effective portion of the change in fair value of the derivative is recorded in Current maturities of long-term debt or Long-term debt on the accompanying Condensed Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to Interest expense on the accompanying Condensed Consolidated Statements of Earnings. The notional amount of interest rate swaps outstanding and designated as fair value hedges was $100.0 million as of both June 30, 2012, and December 31, 2011.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Treasury Lock Agreements: Snap-on enters into treasury lock agreements (treasury locks) from time to time to manage the potential change in interest rates in anticipation of issuing fixed rate debt. Treasury locks are accounted for as cash flow hedges. The effective differentials paid or received on treasury locks related to the anticipated issuance of fixed rate debt are recognized as adjustments to Interest expense on the accompanying Condensed Consolidated Statements of Earnings. There were no treasury locks outstanding as of June 30, 2012, or December 31, 2011, and there were no treasury locks settled during either of the first six months of 2012 or 2011.

Fair Value Measurements: Snap-on has derivative assets and liabilities that are measured at Level 2 fair value on a recurring basis. The fair value of derivative instruments, including interest rate swaps and foreign currency forwards, included within the Condensed Consolidated Balance Sheets as of June 30, 2012, and December 31, 2011, are as follows:

		June 30, 2012		December 31, 2011	
(Amounts in millions)	Balance Sheet Presentation	Asset Derivatives Fair Value	Liability Derivatives Fair Value	Asset Derivatives Fair Value	Liability Derivatives Fair Value
Derivatives Designated as Hedging Instruments:					
Interest rate swaps	Other assets	$ 21.2	$	$ 19.0	$
Derivatives Not Designated as Hedging Instruments:					
Foreign currency forwards	Prepaid expenses and other assets	$ 3.6	$	$ 4.3	$
Foreign currency forwards	Other accrued liabilities		10.5		11.0
Total		$ 3.6	$ 10.5	$ 4.3	$ 11.0
Total derivatives instruments		$ 24.8	$ 10.5	$ 23.3	$ 11.0

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. Level 2 fair value measurements for derivative assets and liabilities are measured using quoted prices in active markets for similar assets and liabilities. Interest rate swaps are valued based on the six-month LIBOR swap rate for similar instruments. Foreign currency forwards are valued based on exchange rates quoted by domestic and foreign banks for similar instruments. The company did not have any assets or liabilities measured at Level 1 or Level 3, or implement any changes in its valuation techniques as of and for the six month period ended June 30, 2012.

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

	Effective Portion of Gain / (Loss) Recognized in Income	Effective Portion of Gain / (Loss) Recognized in Income

(Amounts in millions)	Statement of Earnings Presentation	Three months ended June 30, 2012	Three months ended July 2, 2011	Six months ended June 30, 2012	Six months ended July 2, 2011
Derivatives Designated as Fair Value Hedges:					
Interest rate swaps	Interest expense	$ 0.9	$ 1.4	$ 1.7	$ 2.9

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(Unaudited)

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

	Effective Portion of Gain / (Loss) Recognized in Accumulated OCI Three months ended		Statement of Earnings	Effective Portion of Gain / (Loss) Reclassified from Accumulated OCI into Income Three months ended	
(Amounts in millions)	June 30, 2012	July 2, 2011	Presentation	June 30, 2012	July 2, 2011
Derivatives Designated as Cash Flow Hedges:					
Treasury locks	$	$	Interest expense	$ 0.1	$ 0.1

	Effective Portion of Gain / (Loss) Recognized in Accumulated OCI Six months ended		Statement of Earnings	Effective Portion of Gain / (Loss) Reclassified from Accumulated OCI into Income Six months ended	
(Amounts in millions)	June 30, 2012	July 2, 2011	Presentation	June 30, 2012	July 2, 2011
Derivatives Designated as Cash Flow Hedges:					
Treasury locks	$	$	Interest expense	$ 0.2	$ 0.2

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

	Statement of Earnings	Gain / (Loss) Recognized in Income Three months ended		Gain / (Loss) Recognized in Income Six months ended	
(Amounts in millions)	Presentation	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Derivatives Not Designated as Hedging Instruments:					
Foreign currency forwards	Other income (expense) net	$ (8.8)	$ 5.8	$ (2.9)	$ 24.8

Snap-on s foreign currency forwards, as discussed above, are typically not designated as hedges for financial reporting purposes. The fair value changes of derivatives not designated as hedging instruments are reported in earnings as foreign exchange gain or loss in Other income (expense) net on the accompanying Condensed Consolidated Statements of Earnings. The $8.8 million derivative loss recognized in the second quarter of 2012 was offset by transaction gains on net exposures of $8.7 million, resulting in a net foreign exchange loss of $0.1 million for the quarter. The $5.8 million derivative gain recognized in the second quarter of 2011 was offset by transaction losses on net exposures of $5.3 million, resulting in a net foreign exchange gain of $0.5 million for that quarter. The $2.9 million derivative loss recognized in the first six months of 2012 was offset by transaction gains on net exposures of $2.2 million, resulting in a 2012 year-to-date net foreign exchange loss of $0.7 million. The $24.8 million derivative gain recognized in the first six months of 2011 was offset by transaction losses on net exposures of $23.9 million, resulting in a 2011 year-to-date net foreign exchange gain of $0.9 million. The resulting net foreign exchange gains and losses are included in Other income (expense) net

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

on the accompanying Condensed Consolidated Statements of Earnings. See Note 14 for additional information on Other income (expense) net.

As of June 30, 2012, the maximum maturity date of any fair value hedge was 10 years. During the next 12 months, Snap-on expects to reclassify into earnings net gains from Accumulated OCI of approximately $0.3 million after tax at the time the underlying hedge transactions are realized.

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

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

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

	June 30, 2012		December 31, 2011	
(Amounts in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Finance receivables net	$ 769.6	$ 893.0	$ 709.0	$ 815.0
Contract receivables net	227.6	267.6	214.8	246.7
Long-term debt and notes payable and current maturities of long-term debt	984.4	1,146.4	984.1	1,101.5

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

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

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

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

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Note 9: Pension Plans

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

	Three Months Ended		Six Months Ended	
(Amounts in millions)	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Service cost	$ 5.2	$ 4.8	$ 10.5	$ 9.5
Interest cost	13.0	13.4	25.8	26.7
Expected return on plan assets	(16.9)	(14.4)	(33.0)	(29.0)
Amortization of unrecognized loss	11.0	7.9	20.8	15.5
Amortization of prior service cost	0.3	0.3	0.6	0.6
Settlement loss recognized	6.8		6.8	
Net pension expense	$ 19.4	$ 12.0	$ 31.5	$ 23.3

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

Note 10: Postretirement Health Care Plans

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

	Three Months Ended		Six Months Ended	
(Amounts in millions)	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Service cost	$ 0.1	$	$ 0.1	$ 0.1
Interest cost	0.6	0.9	1.3	1.7
Expected return on plan assets	(0.2)	(0.2)	(0.5)	(0.5)
Net postretirement expense	$ 0.5	$ 0.7	$ 0.9	$ 1.3

Note 11: Stock-Based Compensation

On April 28, 2011, shareholders approved the 2011 Incentive Stock and Awards Plan (the 2011 Plan), which replaced the 2001 Incentive Stock and Awards Plan (the 2001 Plan). The 2011 Plan, like the 2001 Plan, provides for the grant of stock options, performance awards, stock appreciation rights (SARs) and restricted stock awards (which may be designated as restricted stock units or RSUs). No further grants will be made under the 2001 Plan, although outstanding awards will continue until exercised, vested or expired. As of June 30, 2012, the 2011 Plan had 3,933,173 shares available for future grants. The company uses treasury stock to deliver shares under the Plans.

Net stock-based compensation expense was $7.4 million and $16.1 million for the three and six month periods ended June 30, 2012, respectively, and $6.3 million and $12.2 million for the three and six month periods ended July 2, 2011, respectively. Cash received from option exercises during the three and six month periods ended June 30, 2012, totaled $9.2 million and $22.5 million, respectively. Cash received from option exercises during the three and six month periods ended July 2, 2011, totaled $14.5 million and $26.3 million, respectively. The tax benefit realized from the exercise of share-based payment arrangements was $1.4 million and $5.0 million for the three and six month periods ended June 30, 2012, respectively, and $1.1 million and $3.3 million for the three and six month periods ended July 2, 2011, respectively.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Stock Options

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

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model. The company uses historical data regarding stock option exercise behaviors for different participating groups to estimate the period of time that options granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company s stock for the length of time corresponding to the expected term of the option. The expected dividend yield is based on the company s historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve on the grant date for the expected term of the option. The following weighted-average assumptions were used in calculating the fair value of stock options granted during the three month period ended June 30, 2012, and the six month periods ended June 30, 2012, and July 2, 2011, using the Black-Scholes valuation model; no stock options were granted during the three month period ended July 2, 2011:

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Expected term of option *(in years)*	5.29	N/A	5.37	5.89
Expected volatility factor	37.31%	N/A	36.93%	34.18%
Expected dividend yield	2.73%	N/A	2.72%	2.72%
Risk-free interest rate	0.78%	N/A	0.82%	2.33%

A summary of stock option activity as of and for the six month period ended June 30, 2012, is presented below:

	Shares *(in thousands)*	Exercise Price Per Share (*)	Remaining Contractual Term (*) *(in years)*	Aggregate Intrinsic Value *(in millions)*
Outstanding at December 31, 2011	2,533	$ 45.07		
Granted	618	60.00		
Exercised	(422)	39.50		
Forfeited or expired	(27)	55.44		
Outstanding at June 30, 2012	2,702	49.25	7.15	$ 35.1
Exercisable at June 30, 2012	1,545	43.58	5.77	28.8

* Weighted-average

The weighted-average grant date fair value of options granted during the six month periods ended June 30, 2012, and July 2, 2011, was $15.46 and $15.80, respectively. The intrinsic value of options exercised was $2.0 million and $8.7 million during the three and six month periods ended June 30, 2012, respectively, and $2.3 million and $8.0 million during the three and six month periods ended July 2, 2011, respectively.

The fair value of stock options vested was $5.7 million and $4.5 million during the six month periods ended June 30, 2012, and July 2, 2011, respectively.

As of June 30, 2012, there was $14.1 million of unrecognized compensation cost related to non-vested stock option compensation arrangements that is expected to be recognized as a charge to earnings over a weighted-average period of 2.1 years.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Performance Awards

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

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

The fair value of these awards is estimated on the date of grant using the Black-Scholes valuation model. The company uses the vesting period of the performance awards as the expected term of the awards granted. Expected volatility is based on the historical volatility of the company s stock for the length of time corresponding to the expected term of the performance award. The risk-free interest rate is based on the U.S. treasury yield curve on the grant date for the length of time corresponding to the expected term of the performance award. The following weighted-average assumptions were used in calculating the fair value of performance awards granted during the six month periods ended June 30, 2012, and July 2, 2011, using the Black-Scholes valuation model:

	Six Months Ended	
	June 30, 2012	July 2, 2011
Expected term of performance award *(in years)*	3.0	3.0
Expected volatility factor	34.42%	40.41%
Risk-free interest rate	0.35%	1.34%

The weighted-average grant date fair value of performance awards granted during the six month periods ended June 30, 2012, and July 2, 2011, was $60.00 and $56.11, respectively. Performance awards for 53,990 shares vested and were paid out during the six month period ended June 30, 2012; no performance awards were vested or paid out during the six month period ended July 2, 2011, except as described below.

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

The changes to the company s non-vested performance awards during the six month period ended June 30, 2012, are as follows:

	Awards *(in thousands)*	Fair Value (*)
Non-vested performance awards at December 31, 2011	707	$ 48.87
Granted	222	60.00
Vested		
Cancellations	(4)	59.74

Non-vested performance awards at June 30, 2012	925	51.50

* Weighted-average

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

As of June 30, 2012, there was $22.8 million of unrecognized compensation cost related to non-vested performance awards that is expected to be recognized as a charge to earnings over a weighted-average period of 1.9 years.

Stock Appreciation Rights (SARs)

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

The fair value of SARs is revalued (mark-to-market) each reporting period using the Black-Scholes valuation model based on Snap-on s period-end stock price. The company uses historical data regarding SARs exercise behaviors for different participating groups to estimate the expected term of the SARs granted based on the period of time that similar instruments granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company s stock for the length of time corresponding to the expected term of the SARs. The expected dividend yield is based on the company s historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve in effect as of the reporting date for the length of time corresponding to the expected term of the SARs. The following weighted-average assumptions were used in calculating the fair value of SARs granted during the three month period ended June 30, 2012, and the six month periods ended June 30, 2012, and July 2, 2011, using the Black-Scholes valuation model; no SARs were granted during the three month period ended July 2, 2011:

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Expected term of SARs *(in years)*	5.20	N/A	4.93	5.15
Expected volatility factor	37.22%	N/A	37.57%	35.83%
Expected dividend yield	2.73%	N/A	2.73%	2.69%
Risk-free interest rate	0.72%	N/A	0.72%	1.80%

The total intrinsic value of SARs exercised was $0.7 million and $2.0 million during the three and six month periods ended June 30, 2012, respectively, and $1.0 million and $2.4 million during the three and six month periods ended July 2, 2011, respectively. The total fair value of SARs vested during the six month periods ended June 30, 2012, and July 2, 2011, was $2.4 million and $2.6 million, respectively.

Changes to the company s non-vested SARs during the six month period ended June 30, 2012, are as follows:

	SARs *(in thousands)*	Fair Value (*)
Non-vested SARs at December 31, 2011	232	$ 13.56
Granted	130	16.49
Vested	(111)	21.75
Cancellations	(11)	
Non-vested SARs at June 30, 2012	240	16.69

* Weighted-average

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

As of June 30, 2012, there was $4.0 million of unrecognized compensation cost related to non-vested SARs that is expected to be recognized as a charge to earnings over a weighted-average period of 2.0 years.

Restricted Stock Awards Non-employee Directors

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

Note 12: Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Weighted-average common shares outstanding	58,155,790	58,186,198	58,163,958	58,183,892
Dilutive effect of stock-based instruments	657,872	593,590	629,178	563,223
Weighted-average common shares outstanding, assuming dilution	58,813,662	58,779,788	58,793,136	58,747,115

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 11,850 shares and 1,186,571 shares of Snap-on common stock for the three and six month periods ended June 30, 2012, respectively, and options to purchase 21,850 shares and 615,488 shares of Snap-on common stock for the three and six month periods ended July 2, 2011, respectively, were not included in the computations of diluted earnings per share as the exercise prices of the options were greater than the average market price of the common stock for the respective periods and the effect on earnings per share would be anti-dilutive.

Note 13: Commitments and Contingencies

Snap-on provides product warranties for specific product lines and accrues for estimated future warranty cost in the period in which the sale is recorded. Snap-on calculates its accrual requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience, including the timing of claims during the warranty period and actual costs incurred. Snap-on s product warranty accrual activity for the three and six month periods ended June 30, 2012, and July 2, 2011, is as follows:

	Three Months Ended		Six Months Ended	
(Amounts in millions)	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Warranty reserve:				
Beginning of period	$ 18.5	$ 16.7	$ 18.6	$ 16.9
Additions	2.3	4.8	5.1	7.6
Usage	(2.4)	(3.5)	(5.3)	(6.5)

End of period	$ 18.4	$ 18.0	$ 18.4	$ 18.0

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

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Snap-on has credit risk exposure for certain SOC-originated contracts with recourse provisions related to franchisee van loans sold by SOC; as of June 30, 2012, and December 31, 2011, $12.6 million and $13.9 million, respectively, of franchisee loans contain a recourse provision to Snap-on if the loans become more than 90 days past due. The asset value of the collateral underlying these recourse loans would serve to mitigate Snap-on s loss in the event of default. The estimated fair value of the guarantees for all loan originations with recourse as of June 30, 2012, was not material.

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

Note 14: Other Income (Expense) Net

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

	Three Months Ended		Six Months Ended	
(Amounts in millions)	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Interest income	$ 0.3	$ 0.4	$ 0.5	$ 0.8
Foreign exchange gain (loss)	(0.1)	0.5	(0.7)	0.9
Other	(0.1)		(0.1)	
Total other income (expense) net	$ 0.1	$ 0.9	$ (0.3)	$ 1.7

Note 15: Segments

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

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

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Financial data by segment was as follows:

	Three Months Ended		Six Months Ended	
(Amounts in millions)	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net sales:				
Commercial & Industrial Group	$ 283.4	$ 279.7	$ 569.9	$ 552.1
Snap-on Tools Group	325.0	299.0	641.6	581.0
Repair Systems & Information Group	227.4	234.5	453.5	461.5
Segment net sales	835.8	813.2	1,665.0	1,594.6
Intersegment eliminations	(97.9)	(86.5)	(191.9)	(174.2)
Total net sales	$ 737.9	$ 726.7	$ 1,473.1	$ 1,420.4
Financial Services revenue	39.9	30.3	77.9	56.1
Total revenues	$ 777.8	$ 757.0	$ 1,551.0	$ 1,476.5
Operating earnings:				
Commercial & Industrial Group	$ 32.8	$ 29.2	$ 62.0	$ 60.8
Snap-on Tools Group	44.5	46.2	90.6	83.3
Repair Systems & Information Group	52.2	49.0	100.8	91.8
Financial Services*	25.6	35.5	49.5	48.0
Segment operating earnings	155.1	159.9	302.9	283.9
Corporate	(24.9)	(25.6)	(51.3)	(49.8)
Operating earnings	$ 130.2	$ 134.3	$ 251.6	$ 234.1
Interest expense	(13.9)	(16.3)	(27.8)	(32.6)
Other income (expense) net	0.1	0.9	(0.3)	1.7
Earnings before income taxes and equity earnings	$ 116.4	$ 118.9	$ 223.5	$ 203.2

* Financial Services operating earnings for the three and six month periods ended July 2, 2011, include an $18.0 million pretax gain from the second quarter 2011 arbitration settlement with CIT.

(Amounts in millions)	June 30, 2012	December 31, 2011
Assets:		
Commercial & Industrial Group	$ 890.5	$ 919.3
Snap-on Tools Group	512.6	463.7

Repair Systems & Information Group	933.8	944.2
Financial Services	1,001.3	923.8
Total assets from reportable segments	$ 3,338.2	$ 3,251.0
Corporate	459.5	470.1
Elimination of intersegment receivables	(56.0)	(48.2)
Total assets	$ 3,741.7	$ 3,672.9

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

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

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

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SNAP-ON INCORPORATED

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

(continued)

RESULTS OF OPERATIONS

Results of operations for the three month periods ended June 30, 2012, and July 2, 2011, are as follows:

	Three Months Ended					
(Amounts in millions)	June 30, 2012		July 2, 2011		Change	
Net sales	$ 737.9	100.0%	$ 726.7	100.0%	$ 11.2	1.5%
Cost of goods sold	(388.0)	-52.6%	(384.5)	-52.9%	(3.5)	-0.9%
Gross profit	349.9	47.4%	342.2	47.1%	7.7	2.3%
Operating expenses	(245.3)	-33.2%	(243.4)	-33.5%	(1.9)	-0.8%
Operating earnings before financial services	104.6	14.2%	98.8	13.6%	5.8	5.9%
Financial services revenue	39.9	100.0%	30.3	100.0%	9.6	31.7%
Financial services expenses	(14.3)	-35.8%	(12.8)	-42.2%	(1.5)	-11.7%
Operating earnings from financial services before arbitration settlement	25.6	64.2%	17.5	57.8%	8.1	46.3%
Arbitration settlement			18.0	59.4%	(18.0)	NM
Operating earnings from financial services	25.6	64.2%	35.5	117.2%	(9.9)	-27.9%
Operating earnings	130.2	16.7%	134.3	17.7%	(4.1)	-3.1%
Interest expense	(13.9)	-1.8%	(16.3)	-2.1%	2.4	14.7%
Other income (expense) net	0.1		0.9	0.1%	(0.8)	-88.9%
Earnings before income taxes and equity earnings	116.4	14.9%	118.9	15.7%	(2.5)	-2.1%
Income tax expense	(38.3)	-4.9%	(39.8)	-5.3%	1.5	3.8%
Earnings before equity earnings	78.1	10.0%	79.1	10.4%	(1.0)	-1.3%
Equity earnings, net of tax	0.4	0.1%	0.8	0.2%	(0.4)	-50.0%
Net earnings	78.5	10.1%	79.9	10.6%	(1.4)	-1.8%
Net earnings attributable to noncontrolling interests	(2.1)	-0.3%	(1.9)	-0.3%	(0.2)	-10.5%
Net earnings attributable to Snap-on Inc.	$ 76.4	9.8%	$ 78.0	10.3%	$ (1.6)	-2.1%

NM: Not meaningful

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

Net sales of $737.9 million in the second quarter of 2012 increased $11.2 million, or 1.5%, from 2011 levels; excluding $20.8 million of unfavorable foreign currency translation, organic sales increased $32.0 million, or 4.5%. Snap-on has significant international operations and is subject to certain risks inherent with foreign operations, including foreign currency translation fluctuations.

Gross profit of $349.9 million in the second quarter of 2012 increased $7.7 million, or 2.3%, as compared to $342.2 million last year. Gross margin (gross profit as a percentage of net sales) of 47.4% in the quarter improved 30 basis points (100 basis points equals 1.0 percent) from 47.1% last year. The year-over-year improvement in gross margin primarily reflects contributions from higher sales volumes, savings from ongoing rapid continuous improvement and other cost reduction actions, including benefits from restructuring (collectively, RCI initiatives), and favorable foreign currency effects, partially offset by $8.9 million of higher restructuring costs. Gross profit in the second quarter of 2012 reflects

SNAP-ON INCORPORATED

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

(continued)

$9.5 million of restructuring costs, including $6.8 million for the settlement of a pension plan following the 2011 closure of the company s Newmarket, Canada, facility; second quarter 2011 restructuring costs totaled $0.6 million. In 2011, Snap-on closed its Newmarket tool storage facility and consolidated its North American tool storage operations into its existing Algona, Iowa, facility.

Operating expenses of $245.3 million in the second quarter of 2012 increased $1.9 million, or 0.8%, as compared to $243.4 million last year. The operating expense margin (operating expenses as a percentage of sales) of 33.2% in the quarter improved 30 basis points from 33.5% last year primarily due to savings from ongoing RCI initiatives. Restructuring costs included in operating expenses totaled $0.7 million in the second quarter of 2012 as compared to $1.3 million last year.

Operating earnings before financial services of $104.6 million in the second quarter of 2012 increased $5.8 million, or 5.9%, as compared to $98.8 million last year. As a percentage of sales, operating earnings before financial services of 14.2% in the quarter improved 60 basis points from 13.6% last year.

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

Financial services operating earnings of $25.6 million on revenue of $39.9 million in the second quarter of 2012 compares with operating earnings (before arbitration settlement) of $17.5 million on revenue of $30.3 million last year. The year-over-year increase in both revenue and operating earnings (before arbitration settlement) primarily reflects the growth in the company s on-book finance portfolio. In the second quarter of 2011, operating earnings from financial services, including the $18.0 million arbitration settlement gain, was $35.5 million.

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

	Three Months Ended					
(Amounts in millions)	June 30, 2012		July 2, 2011		Change	
Operating earnings:						
As reported	$ 130.2	16.7%	$ 134.3	17.7%	$ (4.1)	-3.1%
Less: Arbitration settlement gain			(18.0)	-2.3%	18.0	NM
Excluding arbitration settlement gain	$ 130.2	16.7%	$ 116.3	15.4%	$ 13.9	12.0%

NM: Not meaningful

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

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

(continued)

Operating earnings of $130.2 million in the second quarter of 2012 increased $13.9 million, or 12.0%, as compared with operating earnings of $116.3 million last year, excluding the $18.0 million arbitration settlement gain. As a percentage of revenues (net sales plus financial services revenue), operating margin (operating earnings as a percentage of revenues) of 16.7% in the second quarter of 2012 improved 130 basis points from 15.4% last year, excluding the arbitration settlement gain. Operating earnings, including the $18.0 million arbitration settlement gain, were $134.3 million in the second quarter of 2011.

Interest expense of $13.9 million in the second quarter of 2012 decreased $2.4 million from the comparable prior-year period primarily due to lower average debt levels. See Note 7 to the Condensed Consolidated Financial Statements for information on Snap-on s debt and credit facilities.

Other income (expense) net in the second quarters of 2012 and 2011 was income of $0.1 million and $0.9 million, respectively. Other income (expense) net primarily includes interest income and hedging and currency exchange rate transaction gains and losses. See Note 14 to the Condensed Consolidated Financial Statements for information on other income (expense) net.

Snap-on s effective income tax rate on earnings attributable to Snap-on was 33.5% in the second quarter of 2012 and 34.0% in the second quarter of 2011. See Note 6 to the Condensed Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on in the second quarter of 2012 were $76.4 million, or $1.30 per diluted share. In the second quarter of 2011, net earnings attributable to Snap-on of $78.0 million, or $1.33 per diluted share, included the $11.1 million, or $0.19 per diluted share, after-tax gain from the arbitration settlement with CIT discussed above.

SNAP-ON INCORPORATED

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

(continued)

Results of operations for the six month periods ended June 30, 2012, and July 2, 2011, are as follows:

	Six Months Ended					
(Amounts in millions)	June 30, 2012		July 2, 2011		Change	
Net sales	$ 1,473.1	100.0%	$ 1,420.4	100.0%	$ 52.7	3.7%
Cost of goods sold	(775.5)	-52.6%	(747.6)	-52.6%	(27.9)	-3.7%
Gross profit	697.6	47.4%	672.8	47.4%	24.8	3.7%
Operating expenses	(495.5)	-33.7%	(486.7)	-34.3%	(8.8)	-1.8%