SNAP-ON Inc
Form 10-K
February 14, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 29, 2012, or

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $1.00 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in a definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

The aggregate market value of voting and non-voting common equity held by non-affiliates (excludes 161,546 shares held by directors and executive officers) computed by reference to the price ($62.25) at which common equity was last sold as of the last business day of the registrant s most recently completed second fiscal quarter (June 30, 2012) was $3.6 billion.

The number of shares of Common Stock ($1.00 par value) of the registrant outstanding as of February 8, 2013, was 58,271,454 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference certain information that will be set forth in Snap-on s Proxy Statement, which is expected to first be mailed to shareholders on or about March 12, 2013, prepared for the Annual Meeting of Shareholders scheduled for April 25, 2013.

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PART I

Safe Harbor

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 this Annual Report on Form 10-K, particularly those in Item 1A: Risk Factors, 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.

Snap-on s fiscal year ends on the Saturday that is on or nearest to December 31. Unless otherwise indicated, references in this document to fiscal 2012 or 2012 refer to the fiscal year ended December 29, 2012; references to fiscal 2011 or 2011 refer to the fiscal year ended December 31 2011; and references to fiscal 2010 or 2010 refer to the fiscal year ended January 1, 2011. References in this document to 2012, 2011 and 2010 year end refer to December 29, 2012, December 31, 2011, and January 1, 2011, respectively.

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Item 1: Business

Snap-on was incorporated under the laws of the state of Wisconsin in 1920 and reincorporated under the laws of the state of Delaware in 1930. Snap-on is a leading global innovator, manufacturer and marketer of tools, equipment, diagnostics, repair information and systems solutions for professional users performing critical tasks. Products and services include hand and power tools, tool storage, diagnostic software, information and management systems, shop equipment and other solutions for vehicle dealerships and repair centers, as well as for customers in industries, including aviation and aerospace, agriculture, construction, government and military, mining, natural resources, power generation and technical education. Snap-on also derives income from various financing programs to facilitate the sales of its products.

Snap-on markets its products and brands through multiple distribution sales channels in more than 130 countries. Snap-on s largest geographic markets include the United States, the United Kingdom, Canada, Germany, Australia, Japan, France, Sweden, Spain, the Russian Federation, Brazil, China, Italy, the Netherlands, Argentina, Indonesia, Denmark, Norway, Mexico and India. Snap-on reaches its customers through the company s franchisee, company-direct, distributor and internet channels. Snap-on originated the mobile van tool distribution channel in the automotive repair market.

The company began with the development of the original Snap-on interchangeable socket set in 1920 and subsequently pioneered mobile van tool distribution, where fully stocked vans sell to professional vehicle technicians at their place of business. For many decades, the company was viewed primarily as a hand tool company selling through vans to vehicle technicians. In recent years, Snap-on has defined its value proposition more broadly, extending its reach beyond the garage to deliver a broad array of unique solutions that make work easier for serious professionals performing critical tasks. Building upon capabilities already demonstrated in the automotive repair arena, the company s coherent growth strategy focuses on developing and expanding its professional customer base in adjacent markets, additional geographies and other areas, including in critical industries, where the cost and penalties for failure can be high. In addition to its coherent growth strategy, Snap-on is committed to its Value Creation Processes a set of strategic principles and processes designed to create value and employed in the areas of (i) safety; (ii) quality; (iii) customer connection; (iv) innovation; and (v) rapid continuous improvement (RCI).

Snap-on s primary customer segments include: (i) commercial and industrial customers, including professionals in critical industries and emerging markets; (ii) professional vehicle repair technicians who purchase products through the company s worldwide mobile tool distribution network; and (iii) other professional customers related to vehicle repair, including owners and managers of independent and original equipment manufacturer (OEM) dealership service and repair shops. Snap-on s Financial Services customer segment offers financing options that include (i) loans to franchisees customers and Snap-on s industrial and other customers for the purchase or lease of tools, equipment and diagnostic products on an extended term payment plan; and (ii) business loans and vehicle leases to franchisees.

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 vehicle repair 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 worldwide, primarily owners and managers of independent repair shops and OEM dealership service and repair shops, through direct and distributor channels. Financial Services consists of the business operations of Snap-on Credit LLC (SOC), the company s financial services business in the United States, and Snap-on s other financial services subsidiaries in those international markets where Snap-on has franchise operations. See Note 17 to the Consolidated Financial Statements for information on business segments and foreign operations.

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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Information Available on the Company s Web Site

Additional information regarding Snap-on and its products is available on the company s web site at www.snapon.com. Snap-on is not including the information contained on its web site as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. Snap-on s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Definitive Proxy Statements on Schedule 14A and Current Reports on Form 8-K, as well as any amendments to those reports, are made available to the public at no charge, other than an investor s own internet access charges, through the Investor Information section of the company s web site at www.snapon.com. Snap-on makes such material available on its web site as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC). Copies of any materials the company files with the SEC can also be obtained free of charge through the SEC s web site at www.sec.gov. The SEC s Public Reference Room can be contacted at 100 F Street, N.E., Washington, D.C. 20549, or by calling 1-800-732-0330. In addition, Snap-on s (i) charters for the Audit, Corporate Governance and Nominating, and Organization and Executive Compensation Committees of the company s Board of Directors; (ii) Corporate Governance Guidelines; and (iii) Code of Business Conduct and Ethics are available on Snap-on s web site. Snap-on will also post any amendments to these documents, or information about any waivers granted to directors or executive officers with respect to the Code of Business Conduct and Ethics, on the company s web site at www.snapon.com.

Products and Services

Tools, Diagnostics and Repair Information, and Equipment

Snap-on offers a broad line of products and complementary services that are grouped into three product categories: (i) tools; (ii) diagnostics and repair information; and (iii) equipment. Further product line information is not presented as it is not practicable to do so. The following table shows the consolidated net sales of these product categories for the last three years:

		Net Sales	
(Amounts in millions)	2012	2011	2010
Product Category:			
Tools	$ 1,729.4	$ 1,667.3	$ 1,545.1
Diagnostics and repair information	619.8	613.7	563.3
Equipment	588.7	573.2	510.8
	$ 2,937.9	$ 2,854.2	$ 2,619.2

The *tools* product category includes hand tools, power tools and tool storage products. Hand tools include wrenches, sockets, ratchet wrenches, pliers, screwdrivers, punches and chisels, saws and cutting tools, pruning tools, torque measuring instruments and other similar products. Power tools include cordless (battery), pneumatic (air), hydraulic, and corded (electric) tools, such as impact wrenches, ratchets, chisels, drills, sanders, polishers and similar products. Tool storage includes tool chests, roll cabinets, tool control systems and other similar products. The majority of products are manufactured by Snap-on and, in completing the product offering, other items are purchased from external manufacturers.

The *diagnostics and repair information* product category includes handheld and PC-based diagnostic products, service and repair information products, diagnostic software solutions, electronic parts catalogs, business management systems and services, point-of-sale systems, integrated systems for vehicle service shops, OEM purchasing facilitation services, and warranty management systems and analytics to help OEM dealership service and repair shops manage and track performance.

The *equipment* product category includes solutions for the diagnosis and service of vehicles and industrial equipment. Products include wheel alignment equipment, wheel balancers, tire changers, vehicle lifts, test lane systems, collision repair equipment, air conditioning service equipment, brake service equipment, fluid exchange equipment, transmission troubleshooting equipment, safety testing equipment, battery chargers and hoists.

Snap-on supports the sale of its diagnostics and vehicle service shop equipment by offering training programs as well as after sales support for its customers, primarily focusing on the technologies and the application of specific products developed and marketed by Snap-on.

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Products are marketed under a number of brand names and trademarks, many of which are well known in the vehicle service and industrial markets served. Some of the major trade names and trademarks and the products and services with which they are associated include the following:

Names	Products and Services
Snap-on	Hand tools, power tools, tool storage products (including tool control software and hardware), diagnostics, certain equipment and related accessories, mobile tool stores, web sites, electronic parts catalogs, warranty analytics solutions, business management systems and services, OEM specialty tools and equipment development and distribution, and OEM facilitation services
ATI	Aircraft hand tools and machine tools
BAHCO	Saw blades, cutting tools, pruning tools, hand tools, power tools, tool storage and diagnostics
Blackhawk	Collision repair equipment
Blue-Point	Hand tools, power tools, tool storage units, diagnostics, certain equipment and related accessories
Cartec	Safety testing, brake testers, test lane equipment, dynamometers, suspension testers, emission testers and other equipment
CDI	Torque tools
Fish and Hook	Hand tools and machine tools
Hofmann	Wheel balancers, lifts, tire changers, wheel aligners, brake testers and test lane equipment
Irimo	Saw blades, cutting tools, hand tools, power tools and tool storage
John Bean	Wheel balancers, lifts, tire changers, wheel aligners, brake testers and test lane equipment
Lindström	Hand tools
Mitchell1	Repair and service information, shop management systems and business services
Sandflex	Hacksaw blades, band saws, saw blades, hole saws and reciprocating saw blades
ShopKey	Repair and service information, shop management systems and business services
Sioux	Power tools
Sun	Diagnostics and service equipment
Williams	Hand tools, tool storage, certain equipment and related accessories

Financial Services

Snap-on also generates revenue from various financing activities that include: (i) loans to franchisees customers and the company s industrial and other customers for the purchase or lease of tools, equipment and diagnostic products on an extended term payment plan; and (ii) business loans and vehicle leases to franchisees. The decision to finance through Snap-on or another financing entity is solely at the customer s election. When assessing customers for potential financing, Snap-on considers various factors including financial condition, collateral, debt-servicing ability, past payment experience and credit bureau information.

United States

In the United States, Snap-on offers financing through SOC and provides financing for the majority of new contracts originated by SOC. Financing revenue from new contract originations owned and serviced by SOC is recognized by SOC over the life of the contracts, with interest computed on the average daily balances of the underlying contracts. Prior to July 2009, SOC operated as a financial services joint venture with CIT Group Inc. (CIT), in which CIT was the exclusive purchaser of the financing contracts originated by SOC in the United States. For contracts sold to CIT, SOC continues to service the contracts for a servicing fee, with such revenue recognized over the remaining contractual term of the loans.

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International

Snap-on also offers financing to its franchisees and customer networks through its international finance subsidiaries located in Canada, the United Kingdom, Germany, Australia and Puerto Rico. Snap-on s international finance subsidiaries own and service the loans originated through their financing programs. Financing revenue from these contracts is recognized over the contractual term of the loans, with interest computed on the average daily balances of the underlying contracts.

Other

Franchise fee revenue, including nominal, non-refundable initial and ongoing monthly fees (primarily for sales and business training, and marketing and product promotion programs), is recognized as the fees are earned. Franchise fee revenue totaled $9.9 million, $8.8 million and $9.0 million in fiscal 2012, 2011 and 2010, respectively.

Sales and Distribution

Snap-on markets and distributes its products and related services principally to professional tool and equipment users around the world. The two largest market sectors are the vehicle service and repair sector and the industrial sector.

Vehicle Service and Repair Sector

The vehicle service and repair sector has three main customer groups: (i) professional technicians who purchase tools, equipment and diagnostic products for themselves; (ii) other professional customers related to vehicle repair, including owners and managers of independent and OEM dealership service and repair shops who purchase tools, equipment and diagnostic products for use by multiple technicians within a service or repair facility; and (iii) OEMs.

Snap-on provides innovative tool, equipment and business solutions, as well as technical sales support and training, designed to meet technicians evolving needs. Snap-on s mobile tool van distribution system offers technicians the convenience of purchasing quality tools at their place of business with minimal disruption of their work routine. Snap-on also provides owners and managers of shops, where technicians work, with tools, diagnostic equipment, repair and service information, including electronic parts catalogs and shop management products. Snap-on s OEM facilitation business provides OEMs with products and services including tools, consulting and facilitation services, which include product procurement, distribution and administrative support to customers for their dealership equipment programs.

Major challenges in the vehicle service and repair sector include the increasing rate of technological change within motor vehicles, vehicle population growth, vehicle life and the resulting effects on the businesses of both our suppliers and customers due to these changes. Snap-on believes it is a meaningful participant in the market sector for vehicle service and repair.

Industrial Sector

Snap-on markets its products and services globally to a broad cross-section of commercial and industrial customers, including maintenance and repair operations; manufacturing and assembly facilities; various government agencies, facilities and operations, including military operations; vocational and technical schools; aerospace and aviation; OEM and service and repair customers; oil and gas developers; mining operations; energy and power generation equipment fabricators and operators; agriculture; infrastructure construction companies; and other customers that require instrumentation, service tools and/or equipment for their product and business needs.

The industrial sector for Snap-on has achieved growth in recent years by providing value-added products and services to an increasingly expanding global base of customers in critical industries, particularly those in the market segments of natural resources, aerospace, government and technical education. Through its experienced and dispersed sales organization, industrial solutioneers develop unique and highly valued productivity solutions for customers worldwide that leverage Snap-on s product, service and development capabilities.

Major challenges in the industrial sector include a highly competitive, cost-conscious environment, and a trend toward customers making many of their tool and equipment purchases through one integrated supplier. Snap-on believes it is a meaningful participant in the market sector for industrial tools and equipment.

Distribution Channels

Snap-on serves customers primarily through the following channels of distribution: (i) the mobile van channel; (ii) company direct sales; (iii) distributors; and (iv) e-commerce. The following discussion summarizes Snap-on s general approach for each channel, and is not intended to be all-inclusive.

Mobile Van Channel

In the United States, a significant portion of sales to the vehicle service and repair sector is conducted through Snap-on s mobile franchise van channel. Snap-on s franchisees primarily serve vehicle repair technicians and vehicle service shop owners, generally providing weekly contact at the customer s place of business. Franchisees sales are concentrated in hand and power tools, tool storage products and shop equipment, and diagnostic and repair information products, which can easily be transported in a van and demonstrated during a brief sales call. Franchisees purchase Snap-on s products at a discount from suggested list prices and resell them at prices established by the franchisee. U.S. franchisees are provided a list of places of business that serves as the basis of the franchisee s sales route.

Snap-on also has offered an option termed the Gateway Franchise Program to potential U.S. franchisees, including those that did not meet the standard franchise qualification requirements. Gateway Franchise Program participants have less upfront investment and are provided an initial base level of consigned inventory from Snap-on to assist them in gaining experience and building equity toward the future purchase of a standard franchise. Snap-on also provides certain franchisees the opportunity to add vans to their franchise or to add a limited number of additional franchises. Snap-on charges nominal initial and ongoing monthly franchise fees. Since 1991, written franchise agreements have been entered into with all new U.S. franchisees and most pre-1991 independent franchisees. As of 2012 year end, there were 3,209 vans operated by U.S. franchisees (approximately 97%) with written franchise agreements, or individuals employed by such franchisees, as compared with 3,177 vans (approximately 97%) as of 2011 year end.

In addition to its mobile van channel in the United States, Snap-on has replicated its U.S. franchise van distribution model in certain other countries including Australia, Canada, Germany, Japan, the United Kingdom, the Netherlands, South Africa, New Zealand, Belgium and Ireland. In many of these markets, as in the United States, purchase decisions are generally made or influenced by professional vehicle service technicians as well as shop owners and managers. As of 2012 year end, Snap-on s worldwide mobile van count was approximately 4,800, including approximately 3,500 vans in the United States.

Through SOC, financing is available to U.S. franchisees, including financing for van and truck leases, working capital loans, and loans to enable new franchisees to fund the purchase of the franchise. In many international markets, Snap-on offers a variety of financing options to its franchisees and/or customer networks through its international finance subsidiaries. The decision to finance through Snap-on or another financing entity is solely at the customer s election.

Snap-on supports its franchisees with a field organization of regional offices, franchise performance teams, Diagnostic Sales Developers (DSDs), customer care centers and distribution centers. Snap-on also provides sales and business training, and marketing and product promotion programs, as well as customer and franchisee financing programs through SOC and the company s international finance subsidiaries, all of which are designed to strengthen franchisee sales. In North America, the United States National Franchise Advisory Council and the Canadian National Franchise Advisory Council, both of which are composed primarily of franchisees that are elected by franchisees, assist Snap-on in identifying and implementing enhancements to the franchise program.

In the United States, franchisees work closely with DSDs. DSDs train franchisees on the sale of higher-price-point diagnostics and demonstrate and sell vehicle service shop management and information systems. DSDs work independently and with franchisees to identify and generate sales among vehicle service technicians, shop owners and managers. DSDs are Snap-on employees who are compensated through a combination of base salary and commission; a franchisee receives a brokerage fee from certain sales made by the DSDs to the franchisee s customers. Most products sold through franchisees and DSDs are sold under the Snap-on, Blue-Point and ShopKey brand names.

Snap-on also has a company-owned van program in the United States that is designed to: (i) provide another pool of potential franchisees and field organization personnel; (ii) service customers in select new and/or open routes not currently serviced by franchisees; and (iii) allow Snap-on to pilot new sales and promotional ideas prior to introducing them to franchisees. As of 2012 year end, company-owned vans comprised approximately 5% of the total U.S. van population; Snap-on may elect to increase or reduce the number of company-owned vans in the future.

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Company Direct Sales

A significant proportion of shop equipment sales in North America under the John Bean, Hofmann and Blackhawk brands, diagnostic products under the Snap-on brand and information products under the Mitchell1 brand are made by direct and independent sales forces that have responsibility for national and other accounts. As the vehicle service and repair sector consolidates (with more business conducted by national chains and franchised service centers), Snap-on believes these larger organizations can be serviced most effectively by sales people who can demonstrate and sell the full line of equipment and diagnostic products and services. Snap-on also sells these products and services directly to OEMs and their franchised dealers.

Snap-on brand tools and equipment are marketed to industrial and governmental customers in the United States through both industrial sales representatives, who are employees, and independent industrial distributors. Outside of the United States, industrial sales are also conducted through other independent distributors. Sales representatives focus on industrial customers whose main purchase criteria are quality and service. As of 2012 year end, Snap-on had industrial sales representatives in the United States (including Puerto Rico), Australia, Canada, Japan, Mexico and various European, Asian, Latin American and Middle Eastern countries, with the United States representing the majority of Snap-on s total industrial sales.

Snap-on also sells software, services and solutions to the automotive, power equipment and sports segments. Products and services are marketed to targeted groups, including OEMs and their dealerships and individual repair shops. To effectively reach OEMs, such as General Motors Company, Daimler AG, Ford Motor Company, Chrysler Group LLC, Toyota Motor Corporation, John Deere (Deere & Company), CNH Global N.V., JC Bamford Excavators Ltd. (JCB), and Yamaha Corporation, Snap-on has deployed focused business teams globally.

Distributors

Sales of certain tools and equipment are made through independent distributors who purchase the items from Snap-on and resell them to end users. Hand tools under the BAHCO, Fish and Hook, and Lindström brands and trade names, for example, are sold through distributors in Europe, North and South America, Asia and certain other parts of the world. Wheel service and other vehicle service equipment are sold through distributors primarily under brands including Hofmann, John Bean, Cartec and Blackhawk. Diagnostics and equipment are marketed through distributors in South America and Asia, and through both a direct sales force and distributors in Europe under the Snap-on, Sun, BAHCO and Blue-Point brands.

E-commerce

Snap-on s e-commerce development initiatives allow Snap-on to combine the capabilities of the internet with Snap-on s existing brand sales and distribution strengths to reach new and under-served customer segments. Snap-on offers current and prospective customers online, around-the-clock access to research and purchase products through its public internet web site at www.snapon.com. The site features an online catalog containing nearly 15,000 products, including Snap-on hand tools, power tools, tool storage units and diagnostic equipment available to consumers and professionals in the United States, the United Kingdom, Canada and Australia. As of 2012 year end, Snap-on had more than 900,000 registered users, including approximately 51,000 industrial accounts. E-commerce and certain other system enhancement initiatives are designed to improve productivity and further leverage the one-on-one relationships and service Snap-on has with its current and prospective customers. Through business-to-business and business-to-consumer capabilities, Snap-on and its franchisees are enhancing communications with customers on a real-time, 24 hour, 7 day a week basis.

Competition

Snap-on competes on the basis of its product quality and performance, product line breadth and depth, service, brand awareness and imagery, technological innovation and availability of financing (through SOC or its international finance subsidiaries). While no single company competes with Snap-on across all of its product lines and distribution channels, various companies compete in one or more product categories and/or distribution channels.

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Snap-on believes it is a leading manufacturer and distributor of professional tools, tool storage, diagnostics, equipment, repair software and solutions, offering a broad line of these products to both vehicle service and industrial marketplaces. Various competitors target and sell to professional technicians in the automotive service and repair sector through the mobile van channel; Snap-on also competes with companies that sell tools and equipment to automotive technicians through retail stores and online, auto parts supply outlets, and tool supply warehouses/distributorships. Within the power tools category and the industrial sector, Snap-on has various other competitors, including companies with offerings that overlap with other areas discussed herein. Major competitors selling diagnostics, shop equipment and information to automotive dealerships and independent repair shops include OEMs and their proprietary electronic parts catalogs, diagnostics and information systems, as well as other companies that offer products serving this sector.

Raw Materials and Purchased Product

Snap-on s supply of raw materials and purchased components are generally and readily available from numerous suppliers. Snap-on believes it has secured an ample supply of both bar and coil steel for the near future to ensure stable supply to meet material demands. The company does not currently anticipate experiencing any significant impact in 2013 from steel pricing or availability issues.

Patents, Trademarks and Other Intellectual Property

Snap-on vigorously pursues and relies on patent protection to protect its intellectual property and position in its markets. As of 2012 year end, Snap-on and its subsidiaries held over 600 active and pending patents in the United States and over 1,500 active and pending patents outside of the United States. Sales relating to any single patent did not represent a material portion of Snap-on s revenues in any of the last three years.

Examples of products that have features or designs that benefit from patent protection include wheel alignment systems, wheel balancers, tire changers, lifts, test lanes, sealed ratchets, electronic torque instruments, ratcheting screwdrivers, emissions-sensing devices and diagnostic equipment.

Much of the technology used in the manufacture of vehicle service tools and equipment is in the public domain. Snap-on relies primarily on trade secret protection to protect proprietary processes used in manufacturing. Methods and processes are patented when appropriate. Copyright protection is also utilized when appropriate.

Trademarks used by Snap-on are of continuing importance to Snap-on in the marketplace. Trademarks have been registered in the United States and more than 100 other countries, and additional applications for trademark registrations are pending. Snap-on vigorously polices proper use of its trademarks. Snap-on s right to manufacture and sell certain products is dependent upon licenses from others; however, these products under license do not represent a material portion of Snap-on s net sales.

Domain names have become a valuable corporate asset for companies around the world, including Snap-on. Domain names often contain a trademark or service mark or even a corporate name and are often considered intellectual property. The recognition and value of the Snap-on name, trademark and domain name are core strengths of the company.

Snap-on strategically licenses the Snap-on brand to carefully selected manufacturing and distribution companies for items such as apparel, work boots, lighting and a variety of other goods, in order to further build equity and market presence for the company s strongest brand.

Environmental

Snap-on is subject to various environmental laws, ordinances, regulations, and other requirements of government authorities in the United States and other nations. At Snap-on, these environmental liabilities are managed through the Snap-on Environmental, Health and Safety Management System (EH & SMS), which is applied worldwide. The system is based upon continual improvement and is certified to ISO 14001:2004 and OHSAS 18001:2007, verified through Det Norske Veritas (DNV) Certification, Inc.

Snap-on believes that it complies with applicable environmental control requirements in its operations. Expenditures on environmental matters through EH & SMS have not had, and Snap-on does not for the foreseeable future expect them to have, a material effect upon Snap-on s capital expenditures, earnings or competitive position.

Employees

Snap-on employed approximately 11,200 people at the end of January 2013; Snap-on employed approximately 11,500 people at the end of January 2012.

Approximately 2,700 employees, or 24% of Snap-on s worldwide workforce, are represented by unions and/or covered under collective bargaining agreements. The number of covered union employees whose contracts expire within the next five years approximates 900 employees in 2013; 1,350 employees in 2014; and 50 employees in 2015. There are no contracts currently scheduled to expire in 2016 or 2017. In recent years, Snap-on has not experienced any significant work slow-downs, stoppages or other labor disruptions.

There can be no assurance that these and other future contracts with Snap-on s unions will be renegotiated upon terms acceptable to Snap-on.

Working Capital

Most of Snap-on s businesses are not seasonal and their inventory needs are relatively constant. Snap-on did not have a significant backlog of orders at 2012 year end. In recent years, Snap-on has been using its working capital to fund, in part, the growth of the on-book receivables originated by SOC.

Snap-on s liquidity and capital resources and use of working capital are discussed herein in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

As of 2012 year end, neither Snap-on nor any of its segments depend on any single customer, small group of customers or government for any material part of its revenues.

Item 1A: Risk Factors

In evaluating the company, careful consideration should be given to the following risk factors, in addition to the other information included in this Annual Report on Form 10-K, including the Consolidated Financial Statements and the related notes. Each of these risk factors could adversely affect the company s business, operating results, cash flows and/or financial condition, as well as adversely affect the value of an investment in the company s common stock.

Economic conditions and world events could affect our operating results.

We, our franchisees and our customers, may continue to be adversely affected by challenging economic conditions, including conditions that may particularly impact specific regions, such as Europe, which approximated 21% of our revenues in 2012. These conditions may result in reduced consumer and investor confidence, instability in the credit and financial markets, volatile corporate profits, and reduced business, as well as consumer, spending. We, our franchisees and our customers, and the economy as a whole, also may be affected by future world or local events outside our control, such as acts of terrorism, developments in the war on terrorism, conflicts in international situations and natural disasters. These factors may affect our results of operations by reducing our sales, margins and/or net income as a result of a slowdown in customer orders or order cancellations, impact the availability of raw materials and/or the supply chain, and could potentially lead to future impairment of our intangible assets. In addition, political and social turmoil related to international conflicts and terrorist acts may put pressure on economic conditions abroad. Unstable political, social and economic conditions may make it difficult for our franchisees, customers, suppliers and us to accurately forecast and plan future business activities. If such conditions persist, our business, financial condition, results of operations and cash flows could be negatively affected.

Raw material and energy price fluctuations and shortages (including steel and various fuel sources) could adversely affect the ability to obtain needed manufacturing materials and could adversely affect our results of operations.

The principal raw material used in the manufacture of our products is steel, which we purchase in competitive, price-sensitive markets. To meet Snap-on s high quality standards, our steel needs range from specialized alloys, which are available only from a limited group of approved suppliers, to commodity types of alloys. These raw materials have historically exhibited price and demand fluctuations of a cyclical nature. Some of these materials have been, and in the future may be, in short supply, particularly in the event of a general economic recovery, mill shut downs or production cut backs. As some steel alloys require specialized manufacturing procedures, we could experience inventory shortages if we were required to use an alternative manufacturer on short notice. Additionally, unexpected price increases for other raw materials could result in higher prices to our customers or an erosion of the margins on our products.

We believe our ability to sell our products is also dependent on the number of vehicles on the road, the number of miles driven and the general aging of vehicles. These factors affect the frequency, type and amount of service and repair performed on vehicles by technicians, and therefore affect the demand for the number of technicians, the prosperity of the technicians and, subsequently, the demand technicians have for our tools, other products and services, and the value technicians place on those products and services. To the extent that the prices of gasoline and other petroleum-based fuels increase, as they have at times in recent years, consumers may turn to other methods of transportation, including more frequent use of public transportation, which could result in a decrease in the use of privately operated vehicles. A decrease in the use of privately operated vehicles may lead to fewer repairs and less demand for our products.

We use various energy sources to transport, produce and distribute products, and some of our products have components that are petroleum based. Petroleum and energy prices have periodically increased significantly over short periods of time; further volatility and changes may be caused by market fluctuations, supply and demand, currency fluctuation, production and transportation disruption, world events and changes in governmental programs. Energy price increases raise both our operating costs and the costs of our materials, and we may not be able to increase our prices enough to offset these costs. Higher prices also may reduce the level of future customer orders and our profitability.

Exposure to credit risks of customers and resellers may make it difficult to collect receivables and could adversely affect operating results and financial condition.

Industry and economic conditions have the potential to weaken the financial position of some of our customers. If circumstances surrounding our customers ability to repay their credit obligations were to deteriorate and result in the write-down or write-off of such receivables, it would negatively affect our operating results for the period in which they occur and, if large, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Regulatory changes related to financial services operations could adversely affect operating results and financial condition.

Financial services businesses of all kinds are subject to increasing regulation. In addition to potentially increasing the costs of doing business due to compliance obligations, new laws and regulations, or changes to existing laws and regulations, as well as the enforcement thereof, may affect the relationships between creditors and debtors, inhibit the rights of creditors to collect amounts owed to them, or limit the types of financial products or services offered, any or all of which could have a material adverse effect on our financial condition, results of operations and cash flows.

New and stricter legislation and regulations may affect our business and results of operations.

Increased legislative and regulatory activity and burdens, and a more stringent manner in which they are applied (particularly in the United States), could significantly impact our business and the economy as a whole. For example, the Affordable Care Act (the ACA), which was adopted in 2010 and is being phased in over several years, significantly affects the provision of both health care services and benefits in the United States; the ACA may impact our cost of providing our employees and retirees with health insurance and/or benefits, and may also impact various other aspects of our business. The ACA did not have a material impact on our fiscal 2012, 2011 or 2010 financial results; however, we are continuing to assess the impact of the ACA on our health care benefit costs. Also, the Dodd-Frank Wall Street Reform and Consumer

Protection Act of 2010 (the Dodd-Frank Act) may affect, among other matters, our financial services businesses by requiring changes in the way in which we provide credit or by otherwise increasing the expenses of that operation, as well as the costs related to corporate governance, sourcing compliance, disclosures and general securities law compliance.

These developments, and other potential future legislation and regulations, as well as the increasingly strict regulatory environment, may also adversely affect the customers to which, and the markets into which, we sell our products, and increase our costs and otherwise negatively affect our business, financial condition or results of operations, including in ways that cannot yet be foreseen.

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The performance of Snap-on s mobile van tool distribution business depends on the success of its franchisees.

Approximately 41% of our 2012 revenues were generated by the Snap-on Tools Group, which consists of Snap-on s business operations serving the worldwide van channel. Except in limited circumstances, each of our mobile tool vans is operated by a franchisee pursuant to a franchise agreement. Snap-on s success is dependent on its relationships with franchisees, individually and collectively, as they are the primary sales and service link between the company and vehicle service and repair technicians, who are an important class of end users for Snap-on s products and services. If our franchisees are not successful, or if we do not maintain an effective relationship with our franchisees, the delivery of products, the collection of receivables and/or our relationship with end users could be adversely affected and thereby negatively impact our business, financial condition, results of operations and cash flows.

In addition, if we are unable to maintain effective relationships with franchisees, Snap-on or the franchisees may choose to terminate the relationship, which may result in (i) open routes, in which end-user customers are not provided reliable service; (ii) litigation resulting from termination; (iii) reduced collections or increased write-offs of franchisee receivables owed to Snap-on; and/or (iv) reduced collections or increased write-offs of extended credit contracts and, to a lesser extent, lease contracts that are collected by franchisees on behalf of SOC.

Instability and uncertainty in the credit and financial markets could adversely impact the availability of credit that we and our customers need to operate our businesses.

We depend upon the availability of credit to operate our business, including the financing of receivables from end-user customers that are originated by our financial services businesses. Our end-user customers, franchisees and suppliers also require access to credit for their businesses. Instability and uncertainty in the credit and financial markets could adversely impact the availability of future financing and the terms on which it might be available to Snap-on, its end-user customers, franchisees and suppliers. Inability to access credit markets, or a deterioration in the terms on which financing might be available, could have an adverse impact on our business, financial condition, results of operations and cash flows.

Increasing our financial leverage could affect our operations and profitability.

The company s leverage ratio may affect both our availability of additional capital resources as well as our operations in several ways, including:

- The terms on which credit may be available to us could be less attractive, both in the economic terms of the credit and the covenants stipulated by the credit terms;
- The possible lack of availability of additional credit;
- Higher levels of interest expense to service outstanding debt;
- The possibility of additional borrowings in the future to repay our indebtedness when it comes due; and
- The possible diversion of capital resources from other uses.

While we believe we will have the ability to service our debt and obtain additional resources in the future if and when needed, that will depend upon our results of operations and financial position at the time, the then-current state of the credit and financial markets, and other factors that may be beyond our control. Therefore, we cannot give assurances that credit will be available on terms that we consider attractive, or at all, if and when necessary or beneficial to us.

Failure to achieve expected investment returns on pension plan assets, as well as changes in interest rates, could adversely impact our results of operations, financial position and cash flows.

Snap-on sponsors various defined benefit pension plans (the pension plans). The assets of the pension plans are broadly diversified in an attempt to mitigate the risk of a large loss. The assets are invested in equity securities, debt securities, real estate and other real assets, hedge funds, other alternative investments and cash. Required funding for the company s domestic defined benefit pension plans is determined in accordance with guidelines set forth in the federal Employee Retirement Income Security Act (ERISA); foreign defined benefit pension plans are funded in accordance with local statutes or practice. Additional contributions to enhance the funded status of the pension plans can be made at the company s discretion. However, there can be no assurance that the value of the pension plan assets, or the investment returns on those plan assets, will be sufficient to meet the future benefit obligations of such plans. In addition, during periods of adverse investment market conditions and declining interest rates, the company may be required to make additional cash contributions to the plans that could reduce our financial flexibility.

Our pension plan obligations are affected by changes in market interest rates. Significant fluctuations in market interest rates have added, and may further add, volatility to our pension plan obligations. In recent years, declining market interest rates have increased our pension plan obligations; if market interest rates continue to decline, our pension plan obligations will increase. While our plan assets are broadly diversified, there are inherent market risks associated with investments; if adverse market conditions occur, our plan assets could incur significant or material losses. Since we may need to make additional contributions to address an increase in obligations and/or a loss in plan assets, the combination of declining market interest rates and/or past or future plan asset investment losses could adversely impact our financial position, results of operations and cash flows.

The company s pension plan expense is comprised of the following factors: (i) service cost; (ii) interest on projected benefit obligations; (iii) the expected return on plan assets; (iv) the amortization of prior service costs (and credits); (v) the effects of actuarial gains and losses; and (vi) settlement/curtailment costs, when applicable. The accounting for pensions involves the estimation of a number of factors that are highly uncertain. Certain factors, such as the interest cost and the expected return on plan assets, are impacted by changes in market interest rates and the value of plan assets. A significant decrease in market interest rates and a decrease in the fair value of plan assets would increase net pension expense and may adversely affect the company s future results of operations. See Note 11 to the Consolidated Financial Statements for further information on the company s pension plans.

Our inability to provide acceptable financing alternatives to end-user customers and franchisees could adversely impact our operating results.

An integral component of our business and profitability is our ability to offer competitive financing alternatives to end-user customers and franchisees. The lack of our ability to obtain capital resources or other financing to support our on-book receivables on terms that we believe are attractive, whether resulting from the state of the financial markets, our own operating performance, or other factors, would negatively affect our operating results and financial condition. Adverse fluctuations in interest rates and/or our ability to provide competitive financing programs for other reasons could also have an adverse impact on our revenue and profitability.

The steps taken to restructure operations, rationalize operating footprint, lower operating expenses and achieve greater efficiencies in the supply chain could disrupt business.

We have taken steps in the past, and expect to take additional steps in 2013, intended to improve customer service and drive further efficiencies and reduce costs, some of which could be disruptive to our business. These actions, collectively across our operating groups, are focused on the following:

- Continuing to invest in initiatives focused on building a strong sales and operating presence in emerging growth markets;
- Continuing to enhance service and value to our franchisees and customers;
- Continuing to implement efficiency and productivity initiatives (collectively Rapid Continuous Improvement or RCI initiatives) throughout the organization to drive further efficiencies and reduce costs;
- Continuing on the company s existing path to improve and transform global manufacturing and the supply chain into a market-demand-based replenishment system with lower costs;
- Continuing to invest in developing and marketing new, innovative, higher-value-added products and advanced technologies;
- Extending our products and services into additional and/or adjacent markets or to new customers; and
- Continuing to provide financing for, and grow our portfolio of, on-book receivables within our financial services businesses.

We believe that by executing on these focus areas, and continuing our commitment to new innovative products and RCI initiatives to drive higher levels of productivity and lower costs, the company and its franchisees may realize stronger growth and profitability. However, failure to succeed in the implementation of any or all of these actions could result in an inability to achieve our financial goals and could be disruptive to the business.

In addition, future reductions to headcount and other cost reduction measures may result in the loss of technical expertise that could adversely affect our research and development efforts as well as our ability to meet product development schedules. Efforts to reduce components of expense could result in the recording of charges for inventory and technology-related write-offs, workforce reduction costs or other charges relating to the consolidation or closure of facilities. If we were to incur a substantial charge to further these efforts, our earnings per share would be adversely affected in such period. If we are unable to effectively manage our cost reduction and restructuring efforts, our business, financial condition, results of operations and cash flows could be negatively affected.

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Failure to maintain effective distribution of products and services could adversely impact revenue, gross margin and profitability.

We use a variety of distribution methods to sell our products and services. Successfully managing the interaction of our distribution efforts to reach various potential customer segments for our products and services is a complex process. Moreover, since each distribution method has distinct risks, costs and gross margins, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenue and gross margins and therefore our profitability.

Risks associated with the disruption of manufacturing operations could adversely affect profitability or competitive position.

We manufacture a significant portion of the products we sell. Any prolonged disruption in the operations of our existing manufacturing facilities, whether due to technical or labor difficulties, facility consolidation or closure actions, lack of raw material or component availability, destruction of or damage to any facility (as a result of natural disasters, use and storage of hazardous materials or other events), or other reasons, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The inability to continue to introduce new products that respond to customer needs and achieve market acceptance could result in lower revenues and reduced profitability.

Sales from new products represent a significant portion of our net sales and are expected to continue to represent a significant component of our future net sales. We may not be able to compete effectively unless we continue to enhance existing products or introduce new products to the marketplace in a timely manner. Product improvements and new product introductions require significant financial and other resources including significant planning, design, development, and testing at the technological, product and manufacturing process levels. Our competitors new products may beat our products to market, be more effective with more features, be less expensive than our products, and/or render our products obsolete. Any new products that we develop may not receive market acceptance or otherwise generate any meaningful net sales or profits for us relative to our expectations based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs and research and development.

The global tool, equipment, and diagnostics and repair information industries are competitive.

We face strong competition in all of our market segments. Price competition in our various industries is intense and pricing pressures from competitors and customers are increasing. In general, as a manufacturer and marketer of premium products and services, the expectations of Snap-on s customers and its franchisees are high and increasing. Any inability to maintain customer satisfaction could diminish Snap-on s premium image and reputation and could result in a lessening of our ability to command premium pricing. We expect that the level of competition will remain high in the future, which could limit our ability to maintain or increase market share or profitability.

Product liability claims and litigation could affect our business, reputation, financial condition, results of operations and cash flows.

The products that we design and/or manufacture can lead to product liability claims being filed against us. To the extent that plaintiffs are successful in showing that defects in the design or manufacture of our products led to personal injury or property damage, we may be subject to claims for damages. Although we are insured for damages above a certain amount, we bear the costs and expenses associated with defending claims, including frivolous lawsuits, and are responsible for damages below the insurance retention amount. As a manufacturer, we can be subject to the costs and potential negative publicity of product recalls, which could impact our results.

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Information technology infrastructure and security are critical to supporting business objectives; failure of our information technology infrastructure to operate effectively could adversely affect our business.

We depend heavily on information technology infrastructure to achieve our business objectives. If a problem occurs that impairs or compromises this infrastructure, including due to security breaches or malicious attacks, or during systems upgrades and/or new systems implementations, the resulting disruption could impede our ability to record or process orders, manufacture and ship in a timely manner, protect sensitive data of the company, our customers, our suppliers and business partners, or otherwise carry on business in the normal course. Any such events could cause us to lose customers and/or revenue and could require us to incur significant expense to remediate, including as a result of legal claims or proceedings.

In association with initiatives to better integrate business units, rationalize operating footprint and improve responsiveness to franchisees and customers, Snap-on is continually replacing and enhancing its global Enterprise Resource Planning (ERP) management information systems. As we integrate, implement and deploy new information technology processes and a common information infrastructure across our global operations, we could experience disruptions in our business that could have an adverse effect on our business, financial condition, results of operations and cash flows.

The recognition of impairment charges on goodwill or other intangible assets would adversely impact our future financial position and results of operations.

We have a substantial amount of goodwill and purchased intangible assets, almost all of which are booked in the Commercial & Industrial and Repair Systems & Information Groups. We are required to perform impairment tests on our goodwill and other intangibles annually or at any time when events occur that could impact the value of our business segments. Our determination of whether impairment has occurred is based on a comparison of each of our reporting units fair market value with its carrying value. Significant and unanticipated changes in circumstances, such as significant and long-term adverse changes in business climate, including in Europe, adverse actions by regulators, unanticipated competition, the loss of key customers, and/or changes in technology or markets, could require a provision for impairment in a future period that could substantially impact our reported earnings and reduce our consolidated net worth and shareholders equity. Should the economic environment in these markets deteriorate, our results of operations and financial position could be materially impacted, including as a result of the effects of potential impairment write-downs of goodwill and/or other intangible assets related to these businesses.

Failure to adequately protect intellectual property could adversely affect our business.

Intellectual property rights are an important and integral component of our business. We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. Adverse determinations in a judicial or administrative proceeding could prevent us from manufacturing and selling our products or prevent us from stopping others from manufacturing and selling competing products. Failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business.

Foreign operations are subject to currency exchange, political, economic and other risks that could adversely affect our business, financial condition, results of operations and cash flows.

The reporting currency for Snap-on s consolidated financial statements is the U.S. dollar. Certain of the company s assets, liabilities, expenses and revenues are denominated in currencies other than the U.S. dollar. In preparing Snap-on s Consolidated Financial Statements, those assets, liabilities, expenses and revenues are translated into U.S. dollars at applicable exchange rates. Increases or decreases in exchange rates between the U.S. dollar and other currencies affect the U.S. dollar value of those items, as reflected in the Consolidated Financial Statements. Substantial fluctuations in the value of the U.S. dollar could have a significant impact on the company s financial condition and results of operations.

Approximately 38% of our revenues in 2012 were generated outside of the United States. Future growth rates and success of our business depends in large part on continued growth in our non-U.S. operations, including growth in emerging markets and critical industries. Numerous risks and uncertainties affect our non-U.S. operations. These risks and uncertainties include political, economic and social instability, such as acts of war, civil disturbance or acts of terrorism, local labor conditions, changes in government policies and regulations, including imposition or increases in withholding and other taxes on remittances and other payments by international subsidiaries, currency instability, transportation delays or interruptions, sovereign debt uncertainties and difficulties in enforcement of contract and intellectual property rights, as well as natural disasters. Should the economic environment in our non-U.S. markets deteriorate from current levels, our results of operations and financial position could be materially impacted, including as a result of the effects of potential impairment write-downs of goodwill and/or other intangible assets related to these businesses.

We are also affected by changes in inflation rates and interest rates. Additionally, cash generated in non-U.S. jurisdictions may be difficult to repatriate to the United States in a tax-efficient manner. Our foreign operations are also subject to other risks and challenges, such as the need to staff and manage diverse workforces, respond to the needs of multiple national and international marketplaces, and differing business climates and cultures in various countries.

Our operations expose us to the risk of environmental liabilities, costs, litigation and violations that could adversely affect our financial condition, results of operations and reputation.

Certain of our operations are subject to environmental laws and regulations in the jurisdictions in which they operate, which impose limitations on the discharge of pollutants into the ground, air and water and establish standards for the generation, treatment, use, storage and disposal of hazardous wastes. We must also comply with various health and safety regulations in the United States and abroad in connection with our operations. Failure to comply with any of these laws could result in civil and criminal, monetary and non-monetary penalties and damage to our reputation. In addition, we may incur costs related to remedial efforts or alleged environmental damage associated with past or current waste disposal practices. Legislation has been proposed, and governmental regulatory action has been both proposed and taken, that may significantly impact environmental compliance in the United States; these actions could increase our costs of production by raising the cost of energy as well as by further restricting emissions or other processes that we currently use in our operations. We cannot provide assurance that our costs of complying with current or future environmental protection and health and safety laws will not exceed our estimates.

Legal disputes could adversely affect our business, reputation, financial condition, results of operations and cash flows.

From time to time we are subject to legal disputes that are being litigated and/or settled in the ordinary course of business. Disputes or future lawsuits could result in the diversion of management s time and attention away from business operations. Additionally, negative developments with respect to legal disputes and the costs incurred in defending ourselves could have an adverse impact on the company and its reputation. Adverse outcomes or settlements could also require us to pay damages, potentially in excess of amounts reserved, or incur liability for other remedies that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The inability to successfully defend claims from taxing authorities could adversely affect our financial condition, results of operations and cash flows.

We conduct business in many countries, which requires us to interpret the income tax laws and rulings in each of those taxing jurisdictions. Due to the subjectivity of tax laws between those jurisdictions, as well as the subjectivity of factual interpretations, our estimates of income tax liabilities may differ from actual payments or assessments. Claims from taxing authorities related to these differences could have an adverse impact on our financial condition, results of operations and cash flows.

Compliance with new regulations related to conflict minerals could increase costs and affect the manufacturing and sale of our products.

Pursuant to the Dodd-Frank Act and SEC rules related thereto, public companies are required to disclose the use of tin, tantalum, tungsten and gold (collectively, conflict minerals) mined from the Democratic Republic of the Congo and adjoining countries (the covered countries) if a conflict mineral(s) is necessary to the functionality of a product manufactured, or contracted to be manufactured, by the company. The rules require us to perform reasonable due diligence to determine if we know or have reason to believe that any of our products contain conflict minerals that may have originated from a covered country. While these rules are currently the subject of a legal challenge, at the current time we believe these new disclosure requirements will require due diligence efforts for Snap-on s 2013 fiscal year, with the initial disclosure, if applicable, due in May 2014.

Certain products or components we obtain from our suppliers may contain some or all of these materials. Because our global supply chain is complex and can have multiple layers, we may not, as a result of our due diligence procedures, be able to sufficiently verify the origins of the relevant minerals used in our products, which could lead to the need for additional investigation and expense, and ultimately could have a negative impact on our business or reputation. We may

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also encounter challenges to satisfy customers who require that our products be certified as conflict free, which could place us at a competitive disadvantage if we are unable to do so. Implementation of the rules could also affect the sourcing and availability of some of the minerals used in the manufacture of products or components we obtain from our suppliers, including our ability to obtain products or components in sufficient quantities and/or at competitive prices.

As a result, compliance and other costs associated with the implementation of these rules could have a material adverse effect on our business and/or results of operations.

The accounting for certain stock-based compensation awards could adversely affect our results of operations.

Certain stock-based equity awards granted by the company, including stock appreciation rights, are subject to mark-to-market accounting treatment, which requires us to recognize changes in the fair value of these awards each period based on the company s period-end stock price. Volatility in the company s stock price, including as a result of macro-economic conditions and other factors beyond our control, could increase or decrease this expense in future periods. Depending on changes in the company s period-end stock price, the application of mark-to-market accounting on certain of our stock-based compensation awards could have an adverse effect, or favorable benefit, on our financial condition and results of operations in certain periods.

Failure to attract and retain qualified personnel could lead to a loss of revenue and/or profitability.

Snap-on s success depends, in part, on the efforts and abilities of its senior management team and other key employees. Their skills, experience and industry contacts significantly benefit our operations and administration. The failure to attract and retain members of our senior management team and other key employees could have a negative effect on our operating results. In addition, transitions of important responsibilities to new individuals inherently include the possibility of disruptions to our business and operations, which could negatively affect our business, financial condition, results of operations and cash flows.

We may not successfully integrate businesses we acquire, which could have an adverse impact on our business, financial condition, results of operations and cash flows.

The pursuit of future growth through acquisitions, including participation in joint ventures, involves significant risks that could have a material adverse effect on our business, financial condition, results of operations and cash flows. These risks include:

- Loss of the acquired businesses customers;
- Inability to integrate successfully the acquired businesses operations;
- Inability to coordinate management and integrate and retain employees of the acquired businesses;
- Difficulties in implementing and maintaining consistent standards, controls, procedures, policies and information systems;
- Failure to realize anticipated synergies, economies of scale or other anticipated benefits, or to maintain operating margins;
- Strain on our personnel, systems and resources, and diversion of attention from other priorities;
- Incurrence of additional debt and related interest expense;
- The dilutive effect of the issuance of additional equity securities;
- Unforeseen or contingent liabilities of the acquired businesses; and
- Large write-offs or write-downs, or the impairment of goodwill or other intangible assets.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

Snap-on maintains leased and owned manufacturing (including software products), warehouse, distribution, research and development and office facilities throughout the world. Snap-on believes that its facilities currently in use are suitable and have adequate capacity to meet its present and foreseeable future demand. Snap-on s facilities in the United States occupy approximately 3.1 million square feet, of which 78% is owned, including its corporate and general office facility

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located in Kenosha, Wisconsin. Snap-on s facilities outside the United States occupy approximately 4.1 million square feet, of which approximately 73% is owned. Certain Snap-on facilities are leased through operating and capital lease agreements. See Note 15 to the Consolidated Financial Statements for information on the company s operating and capital leases. Snap-on management continually monitors the company s capacity needs and makes adjustments as dictated by market and other conditions.

The following table provides information about our corporate headquarters and financial services operations, and each of Snap-on s principal active manufacturing locations and distribution centers (exceeding 50,000 square feet) as of 2012 year end:

Location	Principal Property Use	Owned/Leased	Segment*
U.S. Locations:			
Elkmont, Alabama	Manufacturing	Owned	SOT
Conway, Arkansas	Manufacturing	Owned	RS&I
City of Industry, California	Manufacturing	Leased	C&I
Poway, California	Manufacturing and distribution	Leased	RS&I
San Jose, California	Manufacturing and distribution	Leased	RS&I
Columbus, Georgia	Distribution	Owned	C&I
Crystal Lake, Illinois	Distribution	Owned	SOT
Libertyville, Illinois	Financial services	Leased	FS
Algona, Iowa	Manufacturing and distribution	Owned	SOT
Olive Branch, Mississippi	Distribution	Owned	SOT
Carson City, Nevada	Distribution	Owned and leased	SOT
Murphy, North Carolina	Manufacturing and distribution	Owned	C&I
Richfield, Ohio	Manufacturing and distribution	Owned	RS&I
Robesonia, Pennsylvania	Distribution	Owned	SOT
Elizabethton, Tennessee	Manufacturing	Owned	SOT
Kenosha, Wisconsin	Distribution and corporate	Owned	SOT, C&I, RS&I
Milwaukee, Wisconsin	Manufacturing	Owned	SOT
Non-U.S. Locations:			
Santo Tome, Argentina	Manufacturing	Owned	C&I
New South Wales, Australia	Distribution and financial services	Leased	SOT, FS
Minsk, Belarus	Manufacturing	Owned	C&I
Santa Bárbara d Oeste, Brazil	Manufacturing and distribution	Owned	RS&I
Mississauga, Canada	Manufacturing and distribution	Leased	SOT, RS&I
Kunshan, China	Manufacturing	Owned	C&I
Xiaoshan, China	Manufacturing	Owned	C&I
Bramley, England	Manufacturing	Leased	C&I
Kettering, England	Distribution and financial services	Owned	SOT, C&I, FS
Sopron, Hungary	Manufacturing	Owned	RS&I
Correggio, Italy	Manufacturing	Owned	RS&I
Tokyo, Japan	Distribution	Leased	C&I
Helmond, the Netherlands	Distribution	Owned	C&I
Vila do Conde, Portugal	Manufacturing	Owned	C&I
Irun, Spain	Manufacturing	Owned	C&I
Placencia, Spain	Manufacturing	Owned	C&I
Vitoria, Spain	Manufacturing and distribution	Owned	C&I
Bollnäs, Sweden	Manufacturing	Owned	C&I
Edsbyn, Sweden	Manufacturing	Owned	C&I
Lidköping, Sweden	Manufacturing	Owned	C&I

Sandviken, Sweden	Distribution	Leased	C&I

* Segment abbreviations:
C&I Commercial & Industrial Group

SOT Snap-on Tools Group

RS&I Repair Systems & Information Group

FS Financial Services

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Item 3: Legal Proceedings

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.

Item 4: Mine Safety Disclosures

Not applicable.

PART II

Item 5: Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Snap-on had 58,254,796 shares of common stock outstanding as of 2012 year end. Snap-on s stock is listed on the New York Stock Exchange under the ticker symbol SNA. At February 8, 2013, there were 5,907 registered holders of Snap-on common stock.

The high and low closing prices of Snap-on s common stock during each quarter for the last two years were as follows:

	Common Stock High/Low Prices			
	2012		2011	
Quarter	High	Low	High	Low
First	$ 62.18	$ 51.12	$ 61.28	$ 55.03
Second	64.24	57.63	63.63	55.39
Third	73.43	59.90	64.09	44.40
Fourth	80.03	71.28	56.06	42.45

Snap-on has paid consecutive quarterly cash dividends, without interruption or reduction, since 1939. Quarterly dividends in 2012 were $0.38 per share in the fourth quarter and $0.34 per share in each of the first three quarters ($1.40 per share for the year). Quarterly dividends in 2011 were $0.34 per share in the fourth quarter and $0.32 per share in each of the first three quarters ($1.30 per share for the year). Quarterly dividends in 2010 were $0.32 per share in the fourth quarter and $0.30 per share in each of the first three quarters ($1.22 per share for the year). Cash dividends paid in 2012, 2011 and 2010 totaled $81.5 million, $76.7 million and $71.3 million, respectively. Snap-on s Board of Directors (the Board) monitors and evaluates the company s dividend practice quarterly and the Board may elect to increase, decrease or not pay a dividend on Snap-on common stock based upon the company s financial condition, results of operations, cash requirements and future prospects of Snap-on and other factors deemed relevant by the Board.

See Note 13 to the Consolidated Financial Statements for information on securities authorized for issuance under equity compensation plans.

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The following chart discloses information regarding the shares of Snap-on s common stock repurchased by the company during the fourth quarter of fiscal 2012, all of which were purchased pursuant to the Board s authorizations that the company has publicly announced. Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and franchisee stock purchase plans, stock options and other corporate purposes, as well as to repurchase shares when the company believes market conditions are favorable. The repurchase of Snap-on common stock is at the company s discretion, subject to prevailing financial and market conditions.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate value of shares that may yet be purchased under the plans or programs*
09/30/12 to 10/27/12		NA		$ 183.1 million
10/28/12 to 11/24/12	200,000	$ 76.38	200,000	$ 171.5 million
11/25/12 to 12/29/12	13,000	$ 77.93	13,000	$ 180.9 million
Total/Average	213,000	$ 76.47	213,000	N/A

* Subject to further adjustment pursuant to the 1996 Authorization described below, as of December 29, 2012, the approximate value of shares that may yet be purchased pursuant to the three outstanding Board authorizations discussed below is $180.9 million.

In 1996, the Board authorized the company to repurchase shares of the company s common stock from time to time in the open market or in privately negotiated transactions (the 1996 Authorization). The 1996 Authorization allows the repurchase of up to the number of shares issued or delivered from treasury from time to time under the various plans the company has in place that call for the issuance of the company s common stock. Because the number of shares that are purchased pursuant to the 1996 Authorization will change from time to time as (i) the company issues shares under its various plans; and (ii) shares are repurchased pursuant to this authorization, the number of shares authorized to be repurchased will vary from time to time. The 1996 Authorization will expire when terminated by the Board. When calculating the approximate value of shares that the company may yet purchase under the 1996 Authorization, the company assumed a price of $76.51, $77.83 and $77.34 per share of common stock as of the end of the fiscal 2012 months ended October 27, 2012, November 24, 2012, and December 29, 2012, respectively.

In 1998, the Board authorized the repurchase of an aggregate of $100 million of the company s common stock (the 1998 Authorization). The 1998 Authorization will expire when the aggregate repurchase price limit is met, unless terminated earlier by the Board.

In 1999, the Board authorized the repurchase of an aggregate of $50 million of the company s common stock (the 1999 Authorization). The 1999 Authorization will expire when the aggregate repurchase price limit is met, unless terminated earlier by the Board.

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Five-year Stock Performance Graph

The graph below illustrates the cumulative total shareholder return on Snap-on common stock since December 31, 2007, assuming that dividends were reinvested. The graph compares Snap-on s performance to that of the Standard & Poor s 500 Stock Index (S&P 500) and a Peer Group.

Snap-on Incorporated Total Shareholder Return [1]

Fiscal Year Ended [2]	Snap-on Incorporated	Peer Group [3]	S&P 500
December 31, 2007	$ 100.00	$ 100.00	$ 100.00
December 31, 2008	83.66	66.15	63.00
December 31, 2009	93.20	84.12	79.67
December 31, 2010	128.21	112.02	91.67
December 31, 2011	117.47	109.70	93.61
December 31, 2012	187.26	129.00	108.59

(1) Assumes $100 was invested on December 31, 2007, and that dividends were reinvested quarterly.
(2) The company s fiscal year ends on the Saturday that is on or nearest to December 31 of each year; for ease of calculation, the fiscal year end is assumed to be December 31.
(3) The Peer Group consists of: Stanley Black & Decker, Inc., Danaher Corporation, Emerson Electric Co., Genuine Parts Company, Newell Rubbermaid Inc., Pentair Ltd., SPX Corporation and W.W. Grainger, Inc. Cooper Industries plc, a former member of the Peer Group, was removed, as it was acquired by a larger, non-comparable company in 2012.

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Item 6: Selected Financial Data

The selected financial data presented below has been derived from, and should be read in conjunction with, the respective historical consolidated financial statements of the company, including the notes thereto, and Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Five-year Data *(Amounts in millions, except per share data)*	2012	2011	2010	2009	2008
Results of Operations					
Net sales	$ 2,937.9	$ 2,854.2	$ 2,619.2	$ 2,362.5	$ 2,853.3
Gross profit	1,390.0	1,337.9	1,211.1	1,057.6	1,284.6
Operating expenses	980.3	953.7	894.1	824.4	933.1
Operating earnings before financial services	409.7	384.2	317.0	233.2	351.5
Financial services revenue	161.3	124.3	62.3	58.3	81.4
Financial services expenses	54.6	51.4	47.9	40.8	44.1
Financial services arbitration settlement gain		18.0			
Operating earnings from financial services	106.7	90.9	14.4	17.5	37.3
Operating earnings	516.4	475.1	331.4	250.7	388.8
Interest expense	55.8	61.2	54.8	47.7	33.8
Earnings before income taxes and equity earnings	460.2	412.9	277.4	205.3	357.8
Income tax expense	148.2	133.7	87.6	62.7	117.8
Earnings before equity earnings	312.0	279.2	189.8	142.6	240.0
Equity earnings, net of tax	2.6	4.6	3.2	1.1	3.6
Net earnings	314.6	283.8	193.0	143.7	243.6
Net earnings attributable to noncontrolling interests	(8.5)	(7.5)	(6.5)	(9.5)	(6.9)
Net earnings attributable to Snap-on Inc.	306.1	276.3	186.5	134.2	236.7
Financial Position					
Cash and cash equivalents	$ 214.5	$ 185.6	$ 572.2	$ 699.4	$ 115.8
Trade and other accounts receivable net	497.9	463.5	443.3	414.4	462.2
Finance receivables net	323.1	277.2	215.3	122.3	37.1
Contract receivables net	62.7	49.7	45.6	32.9	22.8
Inventories net	404.2	386.4	329.4	274.7	359.2
Current assets	1,669.0	1,530.7	1,765.5	1,676.1	1,140.7
Property and equipment net	375.2	352.9	344.0	347.8	327.8
Total assets	3,902.3	3,672.9	3,729.4	3,447.4	2,710.3
Notes payable and current maturities of long-term debt	5.2	16.2	216.0	164.7	12.0
Accounts payable	142.5	124.6	146.1	119.8	126.0
Current liabilities	589.2	583.8	881.1	739.9	547.5
Long-term debt	970.4	967.9	954.8	902.1	503.4
Total debt	975.6	984.1	1,170.8	1,066.8	515.4
Total shareholders equity attributable to Snap-on Inc.	1,802.1	1,530.9	1,388.5	1,290.0	1,186.5
Working capital	1,079.8	946.9	884.4	936.2	593.2
Common Share Summary					
Average shares outstanding diluted	58.9	58.7	58.4	57.9	58.1
Net earnings per share attributable to Snap-on Inc.:					
Basic	$ 5.26	$ 4.75	$ 3.22	$ 2.33	$ 4.12
Diluted	5.20	4.71	3.19	2.32	4.07
Cash dividends paid per share	1.40	1.30	1.22	1.20	1.20
Shareholders equity per basic share	30.96	26.30	23.94	22.36	20.63
Fiscal year-end per share price	77.34	50.62	56.58	42.26	41.10

Snap-on terminated its financial services joint venture operating agreement with CIT in July 2009 and subsequently purchased CIT s 50%-ownership interest in SOC for $8.1 million. Since that time, Snap-on has been providing financing for the majority of new contracts originated by SOC. New contracts originated by SOC are reflected as finance and contract receivables on the company s balance sheet and the company is recording the interest yield on these receivables over the life of the contracts as financial services revenue. Previously, the company recorded gains on contracts sold to CIT as financial services revenue.

Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations

Management Overview

Unless otherwise indicated, references in this Management s Discussion and Analysis of Financial Condition and Results of Operations to fiscal 2012 or 2012 refer to the fiscal year ended December 29, 2012; references to fiscal 2011 or 2011 refer to the fiscal year ended December 31 2011; and references to fiscal 2010 or 2010 refer to the fiscal year ended January 1, 2011. References in this document to 2012, 2011 and 2010 year end refer to December 29, 2012, December 31, 2011, and January 1, 2011, respectively.

We believe our 2012 operating performance evidences significant and continued progress on our strategic priorities and ongoing benefits from our Snap-on Value Creation Processes a set of strategic principles and processes designed to create value and employed in the areas of (i) safety; (ii) quality; (iii) customer connection; (iv) innovation; and (v) rapid continuous improvement. Further progress was made in 2012 in strengthening our business model, pursuing geographic and customer diversification and expanding our presence in emerging markets and critical industries. In 2012, we continued to invest in our most important strategic growth initiatives aimed at enhancing the franchisee network, expanding in the vehicle repair garage, extending in critical industries and building in emerging markets. Leveraging capabilities already demonstrated in the automotive repair arena, our coherent growth strategy focuses on developing and expanding our professional customer base in both adjacent markets, additional geographies and other areas, including in critical industries, where the cost and penalties for failure can be high.

Our global financial services operations continue to serve a significant strategic role in providing financing options for our franchisees, their customers, and customers in other parts of our business. We expect that our global financial services business, which includes both Snap-on Credit LLC (SOC) in the United States and our other international finance subsidiaries, will continue to be a meaningful contributor to our operating earnings.

Net sales of $2,937.9 million in 2012 increased $83.7 million, or 2.9%, from 2011 levels; excluding $46.0 million of unfavorable foreign currency translation, organic (excluding foreign currency translation) sales increased $129.7 million or 4.6%. Operating earnings before financial services of $409.7 million in 2012 were up $25.5 million, or 6.6%, from 2011 levels, reflecting contributions from higher sales and improved operating margins, including as a result of ongoing efficiency and productivity initiatives, as well as benefits from restructuring actions (collectively, Rapid Continuous Improvement or RCI initiatives). Operating earnings of $516.4 million in 2012 increased $41.3 million, or 8.7%, from operating earnings of $475.1 million last year, which benefited from an $18.0 million arbitration settlement gain from the resolution of a dispute with CIT Group Inc. (CIT). In 2012, net earnings attributable to Snap-on Incorporated were $306.1 million, or $5.20 per diluted share. Net earnings attributable to Snap-on Incorporated in 2011 of $276.3 million, or $4.71 per diluted share, included $11.1 million after tax, or $0.19 per diluted share, from the arbitration settlement gain.

In the **Commercial & Industrial Group**, segment net sales of $1,125.9 million in 2012 increased $0.1 million from 2011 levels. Excluding $23.7 million of unfavorable foreign currency translation, organic sales in 2012 increased $23.8 million, or 2.2%, as higher sales to a wide range of customers in emerging markets and critical industries were partially offset by lower sales in the segment s European-based hand tools business as a result of ongoing market weakness in that region. Operating earnings of $127.3 million in 2012 increased $3.9 million, or 3.2%, from 2011 levels primarily due to the higher organic sales and continued savings from RCI initiatives, as well as contributions from restructuring initiatives in Europe. In 2012 and 2011, the Commercial & Industrial Group incurred $8.9 million and $5.6 million, respectively, of restructuring costs, primarily intended to improve the segment s cost structure in Europe.

The Commercial & Industrial Group intends to build on the following strategic priorities in 2013:

- Continuing to invest in emerging market growth initiatives, including in China, India and Eastern Europe;

Increasing market share by expanding our business with existing customers and by reaching new customers in critical industries and other market segments;
Continuing to invest in innovation that delivers an ongoing stream of productivity-enhancing solutions; and
Continuing to reduce structural and operating costs through RCI and restructuring initiatives.

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In the **Snap-on Tools Group**, segment net sales of $1,272.0 million in 2012 increased $118.6 million, or 10.3%, from 2011 levels; excluding $4.1 million of unfavorable foreign currency translation, organic sales in 2012 increased $122.7 million, or 10.7%, reflecting higher sales in both the company s U.S. and international franchise operations. Operating earnings of $176.4 million in 2012 increased $17.9 million, or 11.3%, from 2011 levels, primarily as a result of higher sales, benefits from sales volume leverage and savings from ongoing RCI and restructuring initiatives, including contributions from the 2011 consolidation of the company s North American tool storage operations.

The Snap-on Tools Group made considerable progress in 2012 on its fundamental, strategic initiatives to strengthen the group and enhance franchisee profitability. In 2013, the Snap-on Tools Group intends to continue building on the progress made in 2012, with specific initiatives focused on the following:

- Continuing to improve franchisee productivity, profitability, satisfaction and commercial health;
- Developing new programs and products to expand market coverage and penetration;
- Continuing to invest in new product innovation and development; and
- Increasing operational flexibility in back office support functions, manufacturing and the supply chain through RCI initiatives and investment.

By focusing on these areas, we believe that Snap-on, as well as our franchisees, will have the opportunity to continue to serve more customers more effectively, more profitably and with improved satisfaction.

In the **Repair Systems & Information Group**, segment net sales of $917.1 million in 2012 decreased $3.5 million, or 0.4%, from 2011 levels; excluding $18.7 million of unfavorable foreign currency translation, organic sales in 2012 increased $15.2 million or 1.7%. The year-over-year organic sales increase primarily reflects higher sales of diagnostics and repair information products to repair shop owners and managers, partially offset by reduced sales of undercar equipment in Europe. Operating earnings of $205.7 million in 2012 increased $21.0 million, or 11.4%, from 2011 levels, primarily due to savings from ongoing RCI initiatives.

The Repair Systems & Information Group intends to focus on the following strategic priorities in 2013:

- Continuing software and hardware upgrades;
- Expanding product range with new products and services;
- Leveraging integration of software solutions;
- Continuing productivity advancements through RCI initiatives and leveraging of resources; and
- Increasing penetration in geographic markets, including emerging markets.

Financial Services revenue was $161.3 million in 2012 and $124.3 million in 2011; originations of $677.1 million in 2012 increased $71.0 million, or 11.7%, from 2011 levels. Snap-on has steadily grown its on-book finance portfolio and provides financing for the majority of new loans originated by both SOC and the company s international finance subsidiaries. As a result, operating earnings from financial services of $106.7 million in 2012 increased $15.8 million from $90.9 million last year, which included an $18.0 million gain from the 2011 arbitration settlement with CIT.

Financial Services intends to focus on the following strategic priorities in 2013:

- Delivering financial products and services that attract and sustain profitable franchisees and support Snap-on s strategies for expanding market coverage and penetration;

Improving our productivity levels and ensuring high quality in all of our financial products and processes through the use of RCI initiatives; and

Maintaining healthy portfolio performance levels.

Cash Flows

Net cash provided by operating activities was $329.3 million in 2012 as compared to $128.5 million in 2011. Net cash provided by operating activities of $128.5 million in 2011 included the return of $89.8 million of cash withheld from CIT following the settlement of a dispute. In 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. See Note 15 to the Consolidated Financial Statements for information on the arbitration settlement.

Net cash used by investing activities of $173.1 million in 2012 included additions to, and collections of, finance receivables of $569.6 million and $445.5 million, respectively, as well as $27.0 million of proceeds from the sale of a non-strategic equity investment at book value (i.e., no gain or loss on sale). Capital expenditures in 2012 of $79.4 million reflects continued investments related to the company s execution of its Value Creation Processes around safety, quality, customer connection, innovation and rapid continuous improvement. Capital expenditures in 2012 also included continued spending to support the company s strategic growth initiatives, including the expansion of manufacturing capabilities in emerging growth markets, as well as in the United States.

Net cash used by financing activities of $127.0 million in 2012 included $81.5 million for dividend payments to shareholders and $78.1 million for the repurchase of 1,180,000 shares of Snap-on s common stock. These uses of cash were partially offset by $46.8 million of proceeds from stock purchase and option plan exercises. Net cash used by financing activities of $293.7 million in 2011 included the August 2011 repayment of $200 million of unsecured notes upon maturity with available cash.

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Results of Operations

2012 vs. 2011

Results of operations for 2012 and 2011 are as follows:

(Amounts in millions)	2012		2011		Change	
Net sales	$ 2,937.9	100.0%	$ 2,854.2	100.0%	$ 83.7	2.9%
Cost of goods sold	(1,547.9)	-52.7%	(1,516.3)	-53.1%	(31.6)	-2.1%
Gross profit	1,390.0	47.3%	1,337.9	46.9%	52.1	3.9%
Operating expenses	(980.3)	-33.4%	(953.7)	-33.4%	(26.6)	-2.8%
Operating earnings before financial services	409.7	13.9%	384.2	13.5%	25.5	6.6%
Financial services revenue	161.3	100.0%	124.3	100.0%	37.0	29.8%
Financial services expenses	(54.6)	-33.8%	(51.4)	-41.4%	(3.2)	-6.2%
Operating earnings from financial services before arbitration settlement	106.7	66.2%	72.9	58.6%	33.8	46.4%
Arbitration settlement			18.0	14.5%	(18.0)	NM
Operating earnings from financial services	106.7	66.2%	90.9	73.1%	15.8	17.4%
Operating earnings	516.4	16.7%	475.1	16.0%	41.3	8.7%
Interest expense	(55.8)	-1.8%	(61.2)	-2.1%	5.4	8.8%
Other income (expense) net	(0.4)		(1.0)		0.6	60.0%
Earnings before income taxes and equity earnings	460.2	14.9%	412.9	13.9%	47.3	11.5%
Income tax expense	(148.2)	-4.8%	(133.7)	-4.5%	(14.5)	-10.8%
Earnings before equity earnings	312.0	10.1%	279.2	9.4%	32.8	11.7%
Equity earnings, net of tax	2.6	0.1%	4.6	0.1%	(2.0)	-43.5%
Net earnings	314.6	10.2%	283.8	9.5%	30.8	10.9%
Net earnings attributable to noncontrolling interests	(8.5)	-0.3%	(7.5)	-0.2%	(1.0)	-13.3%
Net earnings attributable to Snap-on Inc.	$ 306.1	9.9%	$ 276.3	9.3%	$ 29.8	10.8%

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 $2,937.9 million in 2012 increased $83.7 million, or 2.9%, from 2011 levels; excluding $46.0 million of unfavorable foreign currency translation, organic sales increased $129.7 million or 4.6%. Snap-on has significant international operations and is subject to risks inherent with foreign operations, including foreign currency translation fluctuations.

Gross profit of $1,390.0 million in 2012 increased $52.1 million as compared to $1,337.9 million last year, and gross margin (gross profit as a percentage of net sales) of 47.3% in 2012 improved 40 basis points (100 basis points equals 1.0 percent) from 46.9% last year. The year-over-year improvement in gross margin primarily reflects savings from ongoing RCI initiatives partially offset by $3.3 million of higher restructuring costs. Gross profit in 2012 reflects $10.9 million of restructuring costs, including $6.8 million for the settlement of a pension plan following the 2011 closure of the company s former Newmarket, Canada, facility; restructuring costs in 2011 totaled $7.6 million.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Operating expenses of $980.3 million in 2012 increased $26.6 million as compared to $953.7 million last year. As a result of year-over-year changes in the company s year-end stock price, operating expenses in 2012 included $14.7 million of stock-based (mark-to-market) expense; operating expenses in 2011 included $1.0 million of mark-to-market expense. Restructuring costs included in operating expenses totaled $5.6 million and $4.6 million in 2012 and 2011, respectively. The operating expense margin (operating expenses as a percentage of sales) of 33.4% in 2012 was unchanged from 2011 as benefits from sales volume leverage and savings from ongoing RCI initiatives were offset by higher mark-to-market and other expenses.

Operating earnings before financial services of $409.7 million in 2012 increased $25.5 million from 2011 levels despite $13.7 million of higher mark-to-market expense. As a percentage of sales, operating earnings before financial services of 13.9% in 2012, which includes an adverse 50 basis point impact from the higher mark-to-market expense, improved 40 basis points from 13.5% last year.

In May 2011, Snap-on and CIT reached an amicable settlement of their respective claims relating to payments during the course of their SOC financial services joint venture 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 Consolidated Statement of Earnings for 2011.

Financial services operating earnings of $106.7 million on revenue of $161.3 million in 2012 compares with operating earnings (before arbitration settlement) of $72.9 million on revenue of $124.3 million last year. The year-over-year increases in both revenue and operating earnings primarily reflect the growth in the company s on-book finance portfolio. In 2011, operating earnings from financial services, including the $18.0 million arbitration settlement gain, was $90.9 million.

Operating earnings The following non-GAAP financial data is being provided as management believes that the non-GAAP measures, which exclude last year s $18.0 million arbitration settlement gain, provide a more meaningful comparison of the company s year-over-year operating performance.

(Amounts in millions)	2012		2011		Change	
Operating earnings:						
As reported	$ 516.4	16.7%	$ 475.1	16.0%	$ 41.3	8.7%
Less: Arbitration settlement gain			(18.0)	-0.7%	18.0	NM
Excluding arbitration settlement gain	$ 516.4	16.7%	$ 457.1	15.3%	$ 59.3	13.0%

NM: Not meaningful

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

Operating earnings of $516.4 million in 2012 increased $59.3 million, or 13.0%, as compared with operating earnings of $457.1 million, excluding last year s $18.0 million arbitration settlement gain. As a percentage of revenues (net sales plus financial services revenue), operating earnings of 16.7% in 2012 improved 140 basis points from 15.3% (excluding the arbitration settlement gain) last year. Operating earnings in 2011, including the $18.0 million arbitration settlement gain, were $475.1 million.

Interest expense of $55.8 million in 2012 decreased $5.4 million from $61.2 million last year primarily due to lower average debt levels. See Note 9 to the Consolidated Financial Statements for information on Snap-on s debt and credit facilities.

Other income (expense) net was expense of $0.4 million in 2012 and $1.0 million in 2011. Other income (expense) net primarily includes interest income and hedging and currency exchange rate transaction gains and losses. See Note 16 to the Consolidated Financial Statements for information on other income (expense) net.

Snap-on s effective income tax rate on earnings attributable to Snap-on was 32.8% in 2012 and 33.0% in 2011. See Note 8 to the Consolidated Financial Statements for further information on income taxes.

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Net earnings attributable to Snap-on in 2012 were $306.1 million or $5.20 per diluted share. Net earnings attributable to Snap-on in 2011 of $276.3 million, or $4.71 per diluted share, included an $11.1 million after-tax gain, or $0.19 per diluted share, from the arbitration settlement with CIT.

Exit and Disposal Activities

Snap-on recorded costs of $16.5 million for exit and disposal activities in 2012 as compared to $12.2 million of such costs in 2011. See Note 7 to the Consolidated Financial Statements for information on Snap-on s exit and disposal activities.

Segment Results

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 worldwide, 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 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.

Commercial & Industrial Group

(Amounts in millions)	2012		2011		Change	
External net sales	$ 940.6	83.5%	$ 955.9	84.9%	$ (15.3)	-1.6%
Intersegment net sales	185.3	16.5%	169.9	15.1%	15.4	9.1%
Segment net sales	1,125.9	100.0%	1,125.8	100.0%	0.1	NM
Cost of goods sold	(710.9)	-63.1%	(710.6)	-63.1%	(0.3)	NM
Gross profit	415.0	36.9%	415.2	36.9%	(0.2)	NM
Operating expenses	(287.7)	-25.6%	(291.8)	-25.9%	4.1	1.4%
Segment operating earnings	$ 127.3	11.3%	$ 123.4	11.0%	$ 3.9	3.2%

NM: Not meaningful

Segment net sales of $1,125.9 million in 2012 increased $0.1 million from 2011 levels; excluding $23.7 million of unfavorable foreign currency translation, organic sales increased $23.8 million or 2.2%. The higher year-over-year organic sales primarily reflects a mid single-digit sales increase to customers in critical industries and a double-digit sales gain in the emerging markets of Asia. These increases were partially offset by a mid single-digit sales decline in the segment s European-based hand tools business as a result of continued market weakness in that region.

Segment gross profit of $415.0 million in 2012 compared with $415.2 million last year, and gross margin of 36.9% in 2012 was unchanged from 2011. Gross profit in 2012 and 2011 reflects restructuring costs of $3.6 million and $2.9 million, respectively, primarily to improve the segment s cost structure in Europe.

Segment operating expenses of $287.7 million in 2012 decreased $4.1 million from 2011 levels. The operating expense margin of 25.6% in 2012 improved 30 basis points from 25.9% last year primarily due to benefits from organic sales volume leverage and savings from ongoing RCI initiatives, partially offset by higher restructuring costs in Europe. Restructuring costs included in operating expenses were $5.3 million and $2.7 million in 2012 and 2011, respectively.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

As a result of these factors, segment operating earnings of $127.3 million in 2012, including $3.3 million of higher year-over-year restructuring costs, increased $3.9 million, or 3.2%, from 2011 levels; favorable foreign currency effects in 2012 contributed $3.9 million. Operating margin (segment operating earnings as a percentage of segment net sales) for the Commercial & Industrial Group of 11.3% in 2012 increased 30 basis points from 11.0% last year.

Snap-on Tools Group

(Amounts in millions)	2012		2011		Change	
Segment net sales	$ 1,272.0	100.0%	$ 1,153.4	100.0%	$ 118.6	10.3%
Cost of goods sold	(728.9)	-57.3%	(647.0)	-56.1%	(81.9)	-12.7%
Gross profit	543.1	42.7%	506.4	43.9%	36.7	7.2%
Operating expenses	(366.7)	-28.8%	(347.9)	-30.2%	(18.8)	-5.4%
Segment operating earnings	$ 176.4	13.9%	$ 158.5	13.7%	$ 17.9	11.3%

Segment net sales of $1,272.0 million in 2012 increased $118.6 million, or 10.3%, from 2011 levels. Excluding $4.1 million of unfavorable foreign currency translation, organic sales increased $122.7 million, or 10.7%, reflecting a double-digit sales increase in the company s U.S. franchise operations and a mid single-digit sales increase in the company s international franchise operations.

Segment gross profit of $543.1 million in 2012 increased $36.7 million from 2011 levels. Gross margin of 42.7% in 2012 decreased 120 basis points from 43.9% last year primarily due to increased promotional programs associated with sales gains, and higher restructuring costs. Gross profit in 2012 reflects $7.1 million of restructuring costs, including $6.8 million for the settlement of a pension plan following the 2011 closure of the company s former Newmarket, Canada, facility; restructuring costs in 2011 totaled $3.7 million.

Segment operating expenses of $366.7 million in 2012 increased $18.8 million from 2011 levels primarily due to higher volume-related and other expenses, partially offset by savings from ongoing RCI initiatives. Restructuring costs included in operating expenses were $0.1 million and $0.6 million in 2012 and 2011, respectively. The operating expense margin of 28.8% in 2012 improved 140 basis points from 30.2% last year primarily due to benefits from sales volume leverage and contributions from ongoing RCI initiatives.

As a result of these factors, segment operating earnings of $176.4 million in 2012, including $2.0 million of unfavorable foreign currency effects, increased $17.9 million, or 11.3%, from 2011 levels. Operating margin for the Snap-on Tools Group of 13.9% in 2012 improved 20 basis points from 13.7% last year.

Repair Systems & Information Group

(Amounts in millions)	2012		2011		Change	
External net sales	$ 725.3	79.1%	$ 744.9	80.9%	$ (19.6)	-2.6%
Intersegment net sales	191.8	20.9%	175.7	19.1%	16.1	9.2%

Segment net sales	917.1	100.0%	920.6	100.0%	(3.5)	-0.4%
Cost of goods sold	(485.2)	-52.9%	(504.3)	-54.8%	19.1	3.8%
Gross profit	431.9	47.1%	416.3	45.2%	15.6	3.7%
Operating expenses	(226.2)	-24.7%	(231.6)	-25.1%	5.4	2.3%
Segment operating earnings	$ 205.7	22.4%	$ 184.7	20.1%	$ 21.0	11.4%

Segment net sales of $917.1 million in 2012 decreased $3.5 million, or 0.4%, from 2011 levels. Excluding $18.7 million of unfavorable foreign currency translation, organic sales increased $15.2 million, or 1.7%, primarily due to a mid single-digit increase in sales of diagnostics and repair information products, partially offset by a mid single-digit decline in undercar equipment sales in Europe.

Segment gross profit of $431.9 million in 2012 increased $15.6 million from 2011 levels. Gross margin in 2012 of 47.1% improved 190 basis points from 45.2% last year primarily due to a more favorable sales mix that included higher sales of diagnostics and repair information products as well as savings from ongoing RCI initiatives. Gross profit in 2012 and 2011 reflects restructuring costs of $0.2 million and $1.0 million, respectively.

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Segment operating expenses of $226.2 million in 2012 decreased $5.4 million from 2011 levels and the operating expense margin of 24.7% improved 40 basis points from 25.1% last year primarily due to contributions from ongoing RCI initiatives. Restructuring costs included in operating expenses were $0.2 million and $1.1 million in 2012 and 2011, respectively.

As a result of these factors, segment operating earnings of $205.7 million in 2012, including $3.1 million of unfavorable foreign currency effects, increased $21.0 million, or 11.4%, from 2011 levels. Operating margin for the Repair Systems & Information Group of 22.4% in 2012 increased 230 basis points from 20.1% last year.

Financial Services

(Amounts in millions)	2012		2011		Change	
Financial services revenue	$ 161.3	100.0%	$ 124.3	100.0%	$ 37.0	29.8%
Financial services expenses	(54.6)	-33.8%	(51.4)	-41.4%	(3.2)	-6.2%
Segment operating earnings before arbitration settlement	106.7	66.2%	72.9	58.6%	33.8	46.4%
Arbitration settlement			18.0	14.5%	(18.0)	NM
Segment operating earnings	$ 106.7	66.2%	$ 90.9	73.1%	$ 15.8	17.4%

NM: Not meaningful

Financial services operating earnings of $106.7 million on revenue of $161.3 million in 2012 compares with operating earnings (before arbitration settlement) of $72.9 million on revenue of $124.3 million last year. Financial services operating earnings, including the $18.0 million arbitration settlement gain discussed above, were $90.9 million in 2011. The year-over-year increases in both revenue and operating earnings primarily reflect the growth in the company s on-book finance portfolio. Originations of $677.1 million in 2012 increased $71.0 million, or 11.7%, from 2011 levels. See Notes 1 and 15 to the Consolidated Financial Statements for further information on SOC.

Financial services expenses of $54.6 million and $51.4 million in 2012 and 2011, respectively, primarily include personnel-related and other general and administrative costs necessary to support the portfolios of receivables owned by Snap-on and by CIT (collectively, the serviced portfolio). These expenses are generally more dependent on the change in size of the serviced portfolio than they are on the revenue of this segment. Financial services expenses also include doubtful accounts provisions for the finance and contract receivables owned by Snap-on. As a percentage of the average serviced portfolio, financial services expenses were 5.1% in both years.

Corporate

Snap-on s general corporate expenses of $99.7 million in 2012 increased $17.3 million from $82.4 million last year primarily due to $13.7 million of higher mark-to-market expense. As a result of changes in the company s year-end stock price, corporate expenses in 2012 included $14.7 million of mark-to-market expense, while corporate expenses in 2011 included $1.0 million of such expense.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Fourth Quarter

Results of operations for the fourth quarters of 2012 and 2011 are as follows:

	Fourth Quarter					
(Amounts in millions)	2012		2011		Change	
Net sales	$ 753.2	100.0%	$ 736.6	100.0%	$ 16.6	2.3%
Cost of goods sold	(401.2)	-53.3%	(400.8)	-54.4%	(0.4)	-0.1%
Gross profit	352.0	46.7%	335.8	45.6%	16.2	4.8%
Operating expenses	(240.6)	-31.9%	(232.0)	-31.5%	(8.6)	-3.7%
Operating earnings before financial services	111.4	14.8%	103.8	14.1%	7.6	7.3%
Financial services revenue	42.9	100.0%	35.5	100.0%	7.4	20.8%
Financial services expenses	(13.6)	-31.7%	(13.4)	-37.7%	(0.2)	-1.5%
Operating earnings from financial services	29.3	68.3%	22.1	62.3%	7.2	32.6%
Operating earnings	140.7	17.7%	125.9	16.3%	14.8	11.8%
Interest expense	(14.4)	-1.8%	(13.5)	-1.8%	(0.9)	-6.7%
Other income (expense) net	0.1		(1.0)	-0.1%	1.1	NM
Earnings before income taxes and equity earnings	126.4	15.9%	111.4	14.4%	15.0	13.5%
Income tax expense	(39.8)	-5.0%	(36.2)	-4.7%	(3.6)	-9.9%
Earnings before equity earnings	86.6	10.9%	75.2	9.7%	11.4	15.2%
Equity earnings, net of tax	0.1		0.9	0.1%	(0.8)	NM
Net earnings	86.7	10.9%	76.1	9.8%	10.6	13.9%
Net earnings attributable to noncontrolling interests	(2.1)	-0.3%	(1.8)	-0.2%	(0.3)	-16.7%
Net earnings attributable to Snap-on Inc.	$ 84.6	10.6%	$ 74.3	9.6%	$ 10.3	13.9%

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 $753.2 million in the fourth quarter of 2012 increased $16.6 million, or 2.3%, from 2011 levels; excluding $1.9 million of unfavorable foreign currency translation, organic sales increased $18.5 million or 2.5%.

Gross profit of $352.0 million in the fourth quarter of 2012 increased $16.2 million as compared to $335.8 million last year, and gross margin of 46.7% in the quarter improved 110 basis points from 45.6% last year. The year-over-year improvement in gross margin primarily reflects savings from ongoing RCI initiatives and lower restructuring costs. No restructuring costs were incurred in the fourth quarter of 2012; gross profit in the fourth quarter of 2011 included $3.9 million of restructuring costs.

Operating expenses of $240.6 million in the fourth quarter of 2012 increased $8.6 million as compared to $232.0 million last year, primarily due to higher volume-related and other expenses. No restructuring costs were incurred in the fourth quarter of 2012; restructuring costs included in operating expenses totaled $0.5 million in the fourth quarter of 2011. The fourth-quarter 2012 operating expense margin of 31.9% increased 40 basis points from 31.5% last year.

Operating earnings before financial services of $111.4 million in the fourth quarter of 2012 increased $7.6 million from 2011 levels. As a percentage of sales, operating earnings before financial services of 14.8% in the quarter increased 70 basis points from 14.1% last year.

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Financial services operating earnings of $29.3 million on revenue of $42.9 million in the fourth quarter of 2012 compares with operating earnings of $22.1 million on revenue of $35.5 million last year. The year-over-year increases in both revenue and operating earnings primarily reflect the growth in the company s on-book finance portfolio.

Operating earnings of $140.7 million in the fourth quarter of 2012 increased $14.8 million, or 11.8%, as compared with operating earnings of $125.9 million last year. As a percentage of revenues, operating earnings of 17.7% in the fourth quarter of 2012 improved 140 basis points from 16.3% last year.

Interest expense of $14.4 million in the fourth quarter of 2012 compared with interest expense of $13.5 million last year. See Note 9 to the Consolidated Financial Statements for information on Snap-on s debt and credit facilities.

Other income (expense) net was income of $0.1 million in the fourth quarter of 2012 as compared to expense of $1.0 million last year. See Note 16 to the Consolidated Financial Statements for information on other income (expense) net.

Snap-on s effective income tax rate on earnings attributable to Snap-on was 32.0% in the fourth quarter of 2012 and 33.0% in the fourth quarter of 2011. See Note 8 to the Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on of $84.6 million, or $1.43 per diluted share, in the fourth quarter of 2012 compared with net earnings attributable to Snap-on of $74.3 million, or $1.27 per diluted share, in the fourth quarter of 2011.

Segment Results

Commercial & Industrial Group

	Fourth Quarter					
(Amounts in millions)	2012		2011		Change	
External net sales	$ 236.8	85.9%	$ 250.8	84.9%	$ (14.0)	-5.6%
Intersegment net sales	38.8	14.1%	44.6	15.1%	(5.8)	-13.0%
Segment net sales	275.6	100.0%	295.4	100.0%	(19.8)	-6.7%
Cost of goods sold	(170.6)	-61.9%	(189.0)	-64.0%	18.4	9.7%
Gross profit	105.0	38.1%	106.4	36.0%	(1.4)	-1.3%
Operating expenses	(73.1)	-26.5%	(73.4)	-24.8%	0.3	0.4%
Segment operating earnings	$ 31.9	11.6%	$ 33.0	11.2%	$ (1.1)	-3.3%

Segment net sales of $275.6 million in the fourth quarter of 2012 decreased $19.8 million, or 6.7%, from 2011 levels; excluding $1.7 million of unfavorable currency translation, organic sales decreased $18.1 million or 6.2%. The lower year-over-year organic sales includes double-digit declines in sales to the military and in the segment s European-based hand tools business as a result of continued economic weakness in that region. These decreases were partially offset by sales gains in other critical industries, as well as a double-digit sales gain to customers in the emerging markets of Asia.

Segment gross profit of $105.0 million in the fourth quarter of 2012 decreased $1.4 million from 2011 levels. Gross margin of 38.1% in the quarter improved 210 basis points from 36.0% last year primarily due to lower restructuring costs as well as savings from ongoing RCI initiatives, particularly in Europe. No restructuring costs were incurred in the fourth quarter of 2012; gross profit in the fourth quarter of 2011 included $2.5 million of restructuring costs.

Segment operating expenses of $73.1 million in the fourth quarter of 2012 decreased $0.3 million from 2011 levels. The operating expense margin of 26.5% in the quarter increased 170 basis points from 24.8% last year primarily as a result of the lower sales.

As a result of these factors, segment operating earnings of $31.9 million in the fourth quarter of 2012, including $1.2 million of favorable foreign currency effects, decreased $1.1 million, or 3.3%, from 2011 levels. Operating margin for the Commercial & Industrial Group of 11.6% in the fourth quarter of 2012 improved 40 basis points from 11.2% last year.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Snap-on Tools Group

(Amounts in millions)	Fourth Quarter 2012		2011		Change	
Segment net sales	$ 321.6	100.0%	$ 292.8	100.0%	$ 28.8	9.8%
Cost of goods sold	(185.8)	-57.8%	(168.9)	-57.7%	(16.9)	-10.0%
Gross profit	135.8	42.2%	123.9	42.3%	11.9	9.6%
Operating expenses	(90.2)	-28.0%	(84.3)	-28.8%	(5.9)	-7.0%
Segment operating earnings	$ 45.6	14.2%	$ 39.6	13.5%	$ 6.0	15.2%

Segment net sales of $321.6 million in the fourth quarter of 2012 increased $28.8 million, or 9.8%, from 2011 levels. Excluding $1.4 million of favorable foreign currency translation, organic sales increased $27.4 million, or 9.3%, reflecting high single-digit sales increases across both the company s U.S. and international franchise operations.

Segment gross profit of $135.8 million in the fourth quarter of 2012 increased $11.9 million from 2011 levels. Gross margin of 42.2% in the quarter compared with 42.3% last year. No restructuring costs were incurred in the fourth quarter of 2012; gross profit in the fourth quarter of 2011 included $0.3 million of restructuring costs.

Segment operating expenses of $90.2 million in the fourth quarter of 2012 increased $5.9 million from 2011 levels primarily due to higher volume-related and other expenses. The operating expense margin of 28.0% in the quarter improved 80 basis points from 28.8% last year primarily due to benefits from sales volume leverage.

As a result of these factors, segment operating earnings of $45.6 million in the fourth quarter of 2012, including $1.2 million of unfavorable foreign currency effects, increased $6.0 million, or 15.2%, from 2011 levels. Operating margin for the Snap-on Tools Group of 14.2% in the fourth quarter of 2012 increased 70 basis points from 13.5% last year.

Repair Systems & Information Group

(Amounts in millions)	Fourth Quarter 2012		2011		Change	
External net sales	$ 194.8	80.6%	$ 193.0	81.6%	$ 1.8	0.9%
Intersegment net sales	46.8	19.4%	43.5	18.4%	3.3	7.6%
Segment net sales	241.6	100.0%	236.5	100.0%	5.1	2.2%
Cost of goods sold	(130.4)	-54.0%	(131.0)	-55.4%	0.6	0.5%
Gross profit	111.2	46.0%	105.5	44.6%	5.7	5.4%

Operating expenses	(55.8)	-23.1%	(56.3)	-23.8%	0.5	0.9%
Segment operating earnings	$ 55.4	22.9%	$ 49.2	20.8%	$ 6.2	12.6%

Segment net sales of $241.6 million in the fourth quarter of 2012 increased $5.1 million, or 2.2%, from 2011 levels. Excluding $1.6 million of unfavorable foreign currency translation, organic sales increased $6.7 million, or 2.9%, including low single-digit gains in both sales of diagnostics and repair information products to repair shop owners and managers and sales to OEM dealerships.

Segment gross profit of $111.2 million in the fourth quarter of 2012 increased $5.7 million from 2011 levels. Gross margin of 46.0% in the fourth quarter of 2012 improved 140 basis points from 44.6% last year primarily due to savings from ongoing RCI initiatives and lower restructuring costs. No restructuring costs were incurred in the fourth quarter of 2012; gross profit in the fourth quarter of 2011 included $1.1 million of restructuring costs.

Segment operating expenses of $55.8 million in the fourth quarter of 2012 decreased $0.5 million from 2011 levels. The operating expense margin of 23.1% in the quarter improved 70 basis points from 23.8% last year primarily due to benefits from sales volume leverage and contributions from ongoing RCI initiatives. No restructuring costs were incurred in the fourth quarter of 2012; restructuring costs included in operating expenses totaled $0.5 million in the fourth quarter of 2011.

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As a result of these factors, segment operating earnings of $55.4 million in the fourth quarter of 2012, including $0.5 million of unfavorable foreign currency effects, increased $6.2 million, or 12.6%, from 2011 levels. Operating margin for the Repair Systems & Information Group of 22.9% in the fourth quarter of 2012 increased 210 basis points from 20.8% last year.

Financial Services

	Fourth Quarter					
(Amounts in millions)	2012		2011		Change	
Financial services revenue	$ 42.9	100.0%	$ 35.5	100.0%	$ 7.4	20.8%
Financial services expenses	(13.6)	-31.7%	(13.4)	-37.7%	(0.2)	-1.5%
Segment operating earnings	$ 29.3	68.3%	$ 22.1	62.3%	$ 7.2	32.6%

Financial services operating earnings of $29.3 million on revenue of $42.9 million in the fourth quarter of 2012 compares with operating earnings of $22.1 million on revenue of $35.5 million last year. The year-over-year increases in both revenue and operating earnings primarily reflect the growth in the company s on-book finance portfolio. Originations of $165.6 million in the fourth quarter of 2012 increased $10.8 million, or 7.0%, from the prior year.

Financial services expenses of $13.6 million and $13.4 million in the fourth quarters of 2012 and 2011, respectively, primarily include personnel-related and other general and administrative costs necessary to support the serviced portfolio. These expenses are generally more dependent on the change in size of the serviced portfolio than they are on the revenue of this segment. Financial services expenses also include doubtful accounts provisions for the finance and contract receivables owned by Snap-on. As a percentage of the average serviced portfolio, financial services expenses were 1.2% and 1.3% in the fourth quarters of 2012 and 2011, respectively.

Corporate

Snap-on s general corporate expenses of $21.5 million in the fourth quarter of 2012 compared with expenses of $18.0 million last year.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

2011 vs. 2010

Results of operations for 2011 and 2010 are as follows:

(Amounts in millions)	2011		2010		Change	
Net sales	$ 2,854.2	100.0%	$ 2,619.2	100.0%	$ 235.0	9.0%
Cost of goods sold	(1,516.3)	-53.1%	(1,408.1)	-53.8%	(108.2)	-7.7%
Gross profit	1,337.9	46.9%	1,211.1	46.2%	126.8	10.5%
Operating expenses	(953.7)	-33.4%	(894.1)	-34.1%	(59.6)	-6.7%
Operating earnings before financial services	384.2	13.5%	317.0	12.1%	67.2	21.2%
Financial services revenue	124.3	100.0%	62.3	100.0%	62.0	99.5%
Financial services expenses	(51.4)	-41.4%	(47.9)	-76.9%	(3.5)	-7.3%
Operating earnings from financial services before arbitration settlement	72.9	58.6%	14.4	23.1%	58.5	NM
Arbitration settlement	18.0	14.5%			18.0	NM
Operating earnings from financial services	90.9	73.1%	14.4	23.1%	76.5	NM
Operating earnings	475.1	16.0%	331.4	12.4%	143.7	43.4%
Interest expense	(61.2)	-2.1%	(54.8)	-2.0%	(6.4)	-11.7%
Other income (expense) net	(1.0)		0.8		(1.8)	NM
Earnings before income taxes and equity earnings	412.9	13.9%	277.4	10.4%	135.5	48.8%
Income tax expense	(133.7)	-4.5%	(87.6)	-3.3%	(46.1)	-52.6%
Earnings before equity earnings	279.2	9.4%	189.8	7.1%	89.4	47.1%
Equity earnings, net of tax	4.6	0.1%	3.2	0.1%	1.4	43.8%
Net earnings	283.8	9.5%	193.0	7.2%	90.8	47.0%
Net earnings attributable to noncontrolling interests	(7.5)	-0.2%	(6.5)	-0.2%	(1.0)	-15.4%
Net earnings attributable to Snap-on Inc.	$ 276.3	9.3%	$ 186.5	7.0%	$ 89.8	48.2%

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 $2,854.2 million in 2011 increased $235.0 million, or 9.0%, from 2010 levels; excluding $57.2 million of favorable foreign currency translation, organic sales increased $177.8 million, or 6.6%, from 2010 levels.

Gross profit of $1,337.9 million in 2011 increased $126.8 million, or 10.5%, as compared to $1,211.1 million in 2010. Gross margin of 46.9% in 2011 improved 70 basis points from 46.2% in 2010 primarily due to savings from ongoing RCI initiatives partially offset by inflationary and other cost increases. Restructuring costs included in gross profit totaled $7.6 million in 2011 as compared to $10.8 million in 2010.

Operating expenses of $953.7 million in 2011 increased $59.6 million, or 6.7%, as compared to $894.1 million in 2010. The operating expense margin of 33.4% in 2011 improved 70 basis points from 34.1% in 2010 primarily due to benefits from sales volume leverage and savings from ongoing RCI initiatives, partially offset by $12.2 million of expected higher pension expense (largely due to the ongoing amortization of investment losses incurred in 2008 and the impact of declining discount rates) and higher performance-based incentive compensation expense. Restructuring costs included in operating expenses totaled $4.6 million in 2011 as compared to $3.4 million in 2010.

Operating earnings before financial services of $384.2 million in 2011 increased $67.2 million, or 21.2%, as compared to $317.0 million in 2010. As a percentage of sales, operating earnings before financial services of 13.5% in 2011 increased 140 basis points from 12.1% in 2010.

In the second quarter of 2011, Snap-on recorded an $18.0 million pretax arbitration settlement gain ($11.1 million after tax, or $0.19 per diluted share) related to its dispute with CIT 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 Consolidated Statement of Earnings for 2011. See Note 15 to the Consolidated Financial Statements for information on the arbitration settlement.

Operating earnings from financial services of $90.9 million in 2011, including the $18.0 million arbitration settlement gain, compares to operating earnings of $14.4 million in 2010. Operating earnings from financial services before arbitration settlement was $72.9 million on revenue of $124.3 million in 2011, as compared with operating earnings of $14.4 million on revenue of $62.3 million in 2010. The year-over-year increases in both revenue and operating earnings primarily reflect the planned growth in the company s on-book finance portfolio.

Consolidated operating earnings of $475.1 million in 2011 increased $143.7 million, or 43.4%, from $331.4 million in 2010. The $143.7 million year-over-year increase includes $76.5 million of higher earnings from financial services (including the $18.0 million arbitration settlement gain mentioned above) and $10.9 million of favorable foreign currency effects. As a percentage of revenues, operating earnings in 2011 of 16.0% improved 360 basis points compared to 12.4% in 2010.

Interest expense of $61.2 million in 2011 increased $6.4 million from 2010 levels primarily due to higher average debt levels, partially offset by lower average interest rates. See Note 9 to the Consolidated Financial Statements for information on Snap-on s debt and credit facilities.

Other income (expense) net was expense of $1.0 million in 2011 as compared to income of $0.8 million in 2010. See Note 16 to the Consolidated Financial Statements for information on other income (expense) net.

Snap-on s effective income tax rate on earnings attributable to Snap-on was 33.0% in 2011 and 32.3% in 2010. The effective income tax rate in 2010 reflects the favorable settlement of certain tax audits. See Note 8 to the Consolidated Financial Statements for further information on income taxes.

Net earnings attributable to Snap-on in 2011 of $276.3 million, or $4.71 per diluted share, included an $11.1 million after- tax gain, or $0.19 per diluted share, from the arbitration settlement with CIT. In 2010, net earnings attributable to Snap-on were $186.5 million or $3.19 per diluted share.

Exit and Disposal Activities

Snap-on recorded costs of $12.2 million for exit and disposal activities in 2011 as compared to $14.2 million of such costs in 2010. See Note 7 to the Consolidated Financial Statements for information on Snap-on s exit and disposal activities.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Segment Results

Commercial & Industrial Group

(Amounts in millions)	2011		2010		Change	
External net sales	$ 955.9	84.9%	$ 891.3	85.0%	$ 64.6	7.2%
Intersegment net sales	169.9	15.1%	156.9	15.0%	13.0	8.3%
Segment net sales	1,125.8	100.0%	1,048.2	100.0%	77.6	7.4%
Cost of goods sold	(710.6)	-63.1%	(662.7)	-63.2%	(47.9)	-7.2%
Gross profit	415.2	36.9%	385.5	36.8%	29.7	7.7%
Operating expenses	(291.8)	-25.9%	(268.6)	-25.6%	(23.2)	-8.6%
Segment operating earnings	$ 123.4	11.0%	$ 116.9	11.2%	$ 6.5	5.6%

Segment net sales of $1,125.8 million in 2011 increased $77.6 million, or 7.4%, from 2010 levels; excluding $30.6 million of favorable foreign currency translation, organic sales increased $47.0 million or 4.4%. In 2011, double-digit sales gains to a wide range of customers in emerging markets and in critical industries were partially offset by double-digit declines in both sales to the military and sales in the southern regions of Europe.

Segment gross profit of $415.2 million in 2011 increased $29.7 million from 2010 levels. Gross margin of 36.9% in 2011 improved 10 basis points from 36.8% in 2010 as contributions from higher sales volumes and savings from RCI initiatives more than offset inflationary and other cost increases.

Segment operating expenses of $291.8 million in 2011 increased $23.2 million from 2010 levels. The operating expense margin of 25.9% in 2011 increased 30 basis points from 25.6% in 2010 primarily due to higher restructuring and other costs.

As a result of these factors, segment operating earnings of $123.4 million in 2011 increased $6.5 million, or 5.6%, from 2010 levels, including $1.4 million of unfavorable foreign currency effects. Operating margin for the Commercial & Industrial Group of 11.0% in 2011 declined 20 basis points from 11.2% in 2010.

Snap-on Tools Group

(Amounts in millions)	2011		2010		Change	
Segment net sales	$ 1,153.4	100.0%	$ 1,039.9	100.0%	$ 113.5	10.9%
Cost of goods sold	(647.0)	-56.1%	(604.3)	-58.1%	(42.7)	-7.1%
Gross profit	506.4	43.9%	435.6	41.9%	70.8	16.3%

Operating expenses	(347.9)	-30.2%	(321.6)	-30.9%	(26.3)	-8.2%
Segment operating earnings	$ 158.5	13.7%	$ 114.0	11.0%	$ 44.5	39.0%

Segment net sales of $1,153.4 million in 2011 increased $113.5 million, or 10.9%, from 2010 levels. Excluding $16.0 million of favorable foreign currency translation, organic sales increased $97.5 million, or 9.2%, primarily due to a double-digit sales gain in the United States.

Segment gross profit of $506.4 million in 2011 increased $70.8 million from 2010 levels. Gross margin of 43.9% in 2011 improved 200 basis points from 41.9% in 2010 primarily due to savings from RCI initiatives, contributions from higher sales, including benefits from favorable manufacturing utilization as a result of increased production levels, and favorable foreign currency effects due to the relatively weaker U.S. dollar. These year-over-year gross margin improvements were partially offset by inflationary and other cost increases. Restructuring costs included in gross profit totaled $3.7 million in 2011 as compared to $4.9 million in 2010. Restructuring costs incurred in both years primarily related to the 2011 closure of Snap-on s Newmarket, Canada, tool storage manufacturing facility. In 2011, Snap-on consolidated its North American tool storage operations into its Algona, Iowa, tool storage facility; production at the Newmarket facility ceased at the end of April 2011.

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Segment operating expenses of $347.9 million in 2011 increased $26.3 million from 2010 levels. The operating expense margin of 30.2% in 2011 improved 70 basis points from 30.9% in 2010 primarily due to benefits from sales volume leverage and lower bad debt expense.

As a result of these factors, segment operating earnings of $158.5 million in 2011 increased $44.5 million, or 39.0%, from 2010 levels, including $10.4 million of favorable foreign currency effects. Operating margin for the Snap-on Tools Group of 13.7% in 2011 improved 270 basis points from 11.0% in 2010.

Repair Systems & Information Group

(Amounts in millions)	2011		2010		Change	
External net sales	$ 744.9	80.9%	$ 688.0	81.2%	$ 56.9	8.3%
Intersegment net sales	175.7	19.1%	159.2	18.8%	16.5	10.4%
Segment net sales	920.6	100.0%	847.2	100.0%	73.4	8.7%
Cost of goods sold	(504.3)	-54.8%	(457.2)	-54.0%	(47.1)	-10.3%
Gross profit	416.3	45.2%	390.0	46.0%	26.3	6.7%
Operating expenses	(231.6)	-25.1%	(225.6)	-26.6%	(6.0)	-2.7%
Segment operating earnings	$ 184.7	20.1%	$ 164.4	19.4%	$ 20.3	12.3%

Segment net sales of $920.6 million in 2011 increased $73.4 million, or 8.7%, from 2010 levels. Excluding $13.3 million of favorable foreign currency translation, organic sales increased $60.1 million, or 7.0%, primarily due to a double-digit gain in essential tool and facilitation program sales to OEM dealerships, and single-digit sales gains of both equipment and diagnostics to repair shop owners and managers.

Segment gross profit of $416.3 million in 2011 increased $26.3 million from 2010 levels. Gross margin of 45.2% in 2011 declined 80 basis points from 46.0% in 2010 as benefits from RCI initiatives were more than offset by a shift in sales mix that included higher volumes of lower margin essential tool and facilitation products.

Segment operating expenses of $231.6 million in 2011 increased $6.0 million from 2010 levels. The operating expense margin of 25.1% in 2011 improved 150 basis points from 26.6% in 2010 primarily due to benefits from sales volume leverage and savings from RCI initiatives.

As a result of these factors, segment operating earnings of $184.7 million in 2011 increased $20.3 million, or 12.3%, from 2010 levels, including $1.2 million of favorable foreign currency effects. Operating margin for the Repair Systems & Information Group of 20.1% in 2011 improved 70 basis points from 19.4% in 2010.

Financial Services

(Amounts in millions)	2011		2010		Change	
Financial services revenue	$ 124.3	100.0%	$ 62.3	100.0%	$ 62.0	99.5%
Financial services expenses	(51.4)	-41.4%	(47.9)	-76.9%	(3.5)	-7.3%
Segment operating earnings before arbitration settlement	72.9	58.6%	14.4	23.1%	58.5	NM

Arbitration settlement	18.0	14.5%			18.0	NM
Segment operating earnings	$ 90.9	73.1%	$ 14.4	23.1%	$ 76.5	NM

NM: Not meaningful

Operating earnings from financial services before arbitration settlement was $72.9 million on revenue of $124.3 million in 2011, as compared with operating earnings of $14.4 million on revenue of $62.3 million in 2010. Originations of $606.1 million in 2011 increased $67.9 million, or 12.6%, from 2010 levels. The year-over-year increases in both revenue and operating earnings (before arbitration settlement) primarily reflect the planned growth in the company s on-book finance portfolio. Operating earnings from financial services of $90.9 million in 2011 included an $18.0 million arbitration settlement gain from the resolution of a dispute with CIT and $0.7 million of favorable foreign currency effects. See Notes 1 and 15 to the Consolidated Financial Statements for further information on SOC.

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Financial services expenses of $51.4 million and $47.9 million in 2011 and 2010, respectively, primarily include personnel-related and other general and administrative costs necessary to support the serviced portfolio. These expenses are generally more dependent on the change in size of the serviced portfolio than they are on the revenue of this segment. Financial services expenses also include doubtful accounts provisions for the finance and contract receivables owned by Snap-on. As a percentage of the average serviced portfolio, financial services expenses were 5.1% and 4.9% in 2011 and 2010, respectively.

Corporate

Snap-on s general corporate expenses of $82.4 million in 2011 increased $4.1 million from $78.3 million in 2010 primarily due to increased performance-based incentive compensation expense and expected higher pension expense (largely due to the ongoing amortization of investment losses incurred in 2008 and the impact of declining discount rates), partially offset by lower mark-to-market compensation and other expenses.

Non-GAAP Supplemental Data

The supplemental data is presented for informational purposes to provide readers with insight into the information used by management for assessing the operating performance of Snap-on s non-financial services (Operations) and Financial Services businesses.

The supplemental Operations data reflects the results of operations and financial position of Snap-on s tools, diagnostics, equipment, software and other non-financial services operations with Financial Services on the equity method. The supplemental Financial Services data reflects the results of operations and financial position of Snap-on s U.S. and international financial services operations. The financing needs of Financial Services are met through intersegment borrowings from Snap-on Incorporated and cash generated from operations; Financial Services is charged interest expense on intersegment borrowings at market rates. Long-term debt for Operations includes the company s third party external borrowings, net of intersegment borrowings to Financial Services. Income taxes are charged (credited) to Financial Services on the basis of the specific tax attributes generated by the U.S. and international financial services businesses. Transactions between the Operations and Financial Services businesses were eliminated to arrive at the Consolidated Financial Statements.

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Supplemental Consolidating Data Supplemental Statements of Earnings information for 2012, 2011 and 2010 is as follows:

	Operations*			Financial Services		
(Amounts in millions)	2012	2011	2010	2012	2011	2010
Net sales	$ 2,937.9	$ 2,854.2	$ 2,619.2	$	$	$
Cost of goods sold	(1,547.9)	(1,516.3)	(1,408.1)			
Gross profit	1,390.0	1,337.9	1,211.1			
Operating expenses	(980.3)	(953.7)	(894.1)			
Operating earnings before financial services	409.7	384.2	317.0			
Financial services revenue				161.3	124.3	62.3
Financial services expenses				(54.6)	(51.4)	(47.9)
Operating earnings from financial services before arbitration settlement				106.7	72.9	14.4
Arbitration settlement					18.0	
Operating earnings from financial services				106.7	90.9	14.4
Operating earnings	409.7	384.2	317.0	106.7	90.9	14.4
Interest expense	(54.0)	(60.0)	(54.4)	(1.8)	(1.2)	(0.4)
Intersegment interest income (expense) net	42.4	35.8	23.9	(42.4)	(35.8)	(23.9)
Other income (expense) net	(0.4)	(1.0)	0.9			(0.1)
Earnings (loss) before income taxes and equity earnings	397.7	359.0	287.4	62.5	53.9	(10.0)
Income tax (expense) benefit	(125.3)	(113.9)	(92.2)	(22.9)	(19.8)	4.6
Earnings (loss) before equity earnings	272.4	245.1	195.2	39.6	34.1	(5.4)
Financial services net earnings (loss) attributable to Snap-on Incorporated	39.6	34.1	(5.4)			
Equity earnings, net of tax	2.6	4.6	3.2			
Net earnings (loss)	314.6	283.8	193.0	39.6	34.1	(5.4)
Net earnings attributable to noncontrolling interests	(8.5)	(7.5)	(6.5)			
Net earnings (loss) attributable to Snap-on Incorporated	$ 306.1	$ 276.3	$ 186.5	$ 39.6	$ 34.1	$ (5.4)

* Snap-on Incorporated with Financial Services on the equity method.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Supplemental Consolidating Data Supplemental Balance Sheet information as of 2012 and 2011 year end is as follows:

	Operations*		Financial Services	
(Amounts in millions)	2012	2011	2012	2011
ASSETS				
Current assets				
Cash and cash equivalents	$ 211.2	$ 181.1	$ 3.3	$ 4.5
Intersegment receivables	14.1	10.8		
Trade and other accounts receivable net	497.5	463.3	0.4	0.2
Finance receivables net			323.1	277.2
Contract receivables net	7.4	6.5	55.3	43.2
Inventories net	404.2	386.4		
Deferred income tax assets	68.8	90.0	13.0	2.6
Prepaid expenses and other assets	88.3	78.1	1.0	0.9
Total current assets	1,291.5	1,216.2	396.1	328.6
Property and equipment net	373.2	351.9	2.0	1.0
Investment in Financial Services	165.3	142.0		
Deferred income tax assets	110.2	119.8	0.2	5.4
Long-term finance receivables net			494.6	431.8
Long-term contract receivables net	12.1	9.1	182.3	156.0
Goodwill	807.4	795.8		
Other intangibles net	187.2	188.3		
Other assets	65.3	83.7	1.1	1.0
Total assets	$ 3,012.2	$ 2,906.8	$ 1,076.3	$ 923.8

* Snap-on Incorporated with Financial Services on the equity method.

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Supplemental Consolidating Data Balance Sheet Information (continued):

	Operations*		Financial Services	
(Amounts in millions)	2012	2011	2012	2011
LIABILITIES AND EQUITY				
Current liabilities				
Notes payable	$ 5.2	$ 16.2	$	$
Accounts payable	142.1	124.0	0.4	0.6
Intersegment payables			14.1	10.8
Accrued benefits	50.6	48.8		
Accrued compensation	84.9	87.1	3.4	3.9
Franchisee deposits	54.7	47.3		
Other accrued liabilities	207.8	229.7	46.9	31.1
Total current liabilities	545.3	553.1	64.8	46.4
Long-term debt and intersegment long-term debt	143.2	257.6	827.2	710.3
Deferred income tax liabilities	125.7	108.0	1.4	0.1
Retiree health care benefits	48.4	52.8		
Pension liabilities	260.7	317.7		
Other long-term liabilities	69.9	70.3	17.6	25.0
Total liabilities	1,193.2	1,359.5	911.0	781.8
Total shareholders equity attributable to Snap-on Inc.	1,802.1	1,530.9	165.3	142.0
Noncontrolling interests	16.9	16.4		
Total equity	1,819.0	1,547.3	165.3	142.0
Total liabilities and equity	$ 3,012.2	$ 2,906.8	$ 1,076.3	$ 923.8

* Snap-on Incorporated with Financial Services on the equity method.

Liquidity and Capital Resources

Snap-on s growth has historically been funded by a combination of cash provided by operating activities and debt financing. Snap-on believes that its cash from operations and collections of finance receivables, coupled with its sources of borrowings and available cash on hand, are sufficient to fund its currently anticipated requirements for payments of interest and dividends, new loans originated by our financial services businesses, capital expenditures, working capital, restructuring activities, the funding of pension plans, and funding for additional share repurchases and acquisitions, if any. Due to Snap-on s credit rating over the years, external funds have been available at an acceptable cost. As of the close of business on February 8, 2013, Snap-on s long-term debt and commercial paper were rated, respectively, Baa1 and P-2 by Moody s Investors Service; A- and A-2 by Standard & Poor s; and A- and F2 by Fitch Ratings. Snap-on believes that its current credit arrangements are sound and that the strength of its balance sheet affords the company the financial flexibility to respond to both internal growth opportunities and those available through acquisitions. However, Snap-on cannot provide any assurances of the availability of future financing or the terms on which it might be available, or that its debt ratings may not decrease.

The following discussion focuses on information included in the accompanying Consolidated Balance Sheets.

As of 2012 year end, working capital (current assets less current liabilities) of $1,079.8 million increased $132.9 million from $946.9 million at 2011 year end.

The following represents the company s working capital position as of 2012 and 2011 year end:

(Amounts in millions)	2012	2011
Cash and cash equivalents	$ 214.5	$ 185.6
Trade and other accounts receivable net	497.9	463.5
Finance receivables net	323.1	277.2
Contract receivables net	62.7	49.7
Inventories net	404.2	386.4
Other current assets	166.6	168.3
Total current assets	1,669.0	1,530.7
Notes payable	(5.2)	(16.2)
Accounts payable	(142.5)	(124.6)
Other current liabilities	(441.5)	(443.0)
Total current liabilities	(589.2)	(583.8)
Working capital	$ 1,079.8	$ 946.9

Cash and cash equivalents of $214.5 million as of 2012 year end compared to cash and cash equivalents of $185.6 million at 2011 year end. The $28.9 million increase in cash and cash equivalents includes the impacts of (i) $329.3 million of cash generated from operations, net of $73.0 million of cash contributions (including $54.7 million of discretionary contributions) to the company s domestic pension plans; (ii) $445.5

million of cash from collections of finance receivables; (iii) $46.8 million of proceeds from stock purchase and option plan exercises; and (iv) $27.0 million of cash proceeds from the sale of a non-strategic equity investment at book value. These increases in cash and cash equivalents were partially offset by (i) the funding of $569.6 million of new finance originations; (ii) dividend payments of $81.5 million; (iii) the funding of $79.4 million of capital expenditures; and (iv) the repurchase of 1,180,000 shares of the company s common stock for $78.1 million.

Of the $214.5 million of cash and cash equivalents as of 2012 year end, $81.4 million was held outside of the United States. Snap-on considers these non-U.S. funds as permanently invested in its foreign operations to (i) provide adequate working capital; (ii) satisfy various regulatory requirements; and/or (iii) take advantage of business expansion opportunities as they arise; as such, the company does not presently expect to repatriate these funds to fund its U.S. operations or obligations. The repatriation of cash from certain foreign subsidiaries could have adverse net tax consequences on the company should Snap-on be required to pay and record U.S. income taxes and foreign withholding taxes on funds that were previously considered permanently invested. Alternatively, the repatriation of such cash from certain other foreign subsidiaries could result in favorable net tax consequences for the company. Snap-on periodically evaluates opportunities to repatriate certain foreign cash amounts to the extent that it does not incur additional unfavorable net tax consequences.

Trade and other accounts receivable net of $497.9 million as of 2012 year end increased $34.4 million from prior-year levels; excluding $4.8 million of currency translation, trade and other accounts receivable net increased $29.6 million, primarily as a result of higher sales. Days sales outstanding (trade and other accounts receivable net as of the respective period end, divided by the respective trailing 12 months sales, times 360 days) was 61 days at both 2012 and 2010 year end, as compared to 58 days at 2011 year end.

The current portions of net finance and contract receivables of $385.8 million as of 2012 year end compared to $326.9 million at 2011 year end. The long-term portions of net finance and contract receivables of $689.0 million as of 2012 year end, compared to $596.9 million at 2011 year end. The combined $151.0 million increase in net current and long-term finance and contract receivables over 2011 year-end levels primarily reflects the continued growth of the company s on-balance-sheet finance portfolio.

Inventories of $404.2 million as of 2012 year end increased $17.8 million from prior-year levels, primarily to support continued higher customer demand, largely in the United States; excluding currency translation, inventories increased $13.0 million. As a result of higher inventory levels, inventory turns (trailing 12 months of cost of goods sold, divided by the average of the beginning and ending inventory balance for the trailing 12 months) of 3.9 as of 2012 year end decreased from 4.2 turns as of 2011 year end. Inventories accounted for using the first-in, first-out (FIFO) method as of 2012 and 2011 year end approximated 60% and 62%, respectively, of total inventories. All other inventories are accounted for using the last-in, first-out (LIFO) method. The company s LIFO reserve was $71.8 million and $70.1 million as of 2012 and 2011 year end, respectively.

Accounts payable of $142.5 million as of 2012 year end increased $17.9 million from prior-year levels primarily due to the timing of payments; excluding currency translation impacts, accounts payable increased $16.7 million.

Other accrued liabilities of $247.9 million as of 2012 year end decreased $8.0 million from prior-year levels; excluding currency translation impacts, other accrued liabilities decreased $9.5 million.

Long-term debt of $970.4 million as of 2012 year end consisted of (i) $100 million of unsecured 5.85% notes that mature in March 2014; (ii) $150 million of unsecured 5.50% notes that mature in 2017; (iii) $250 million of unsecured 4.25% notes that mature in 2018; (iv) $200 million of unsecured 6.70% notes that mature in 2019; (v) $250 million of unsecured 6.125% notes that mature in 2021; and (vi) $20.4 million of other long-term debt, including fair value adjustments related to interest rate swaps.

Notes payable of $5.2 million as of 2012 year end compared to $16.2 million as of 2011 year end. Average notes payable outstanding were $14.1 million in 2012 and $15.8 million in 2011. The weighted-average interest rate on notes payable was 6.34% in 2012 and 6.14% in 2011. As of 2012 and 2011 year end, the weighted-average interest rate on outstanding notes payable was 6.36% and 6.57%, respectively. No commercial paper was outstanding as of 2012 or 2011 year end.

Snap-on has a five-year, $500 million multi-currency revolving credit facility that terminates on December 8, 2016; as of 2012 year end, 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 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 2012 year end the company s actual ratios of 0.35 and 1.55, 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; the loan and servicing agreement expires on September 27, 2013. On September 28, 2012, as previously reported, the loan and servicing agreement was amended to, among other things, (i) extend the expiration date of the agreement to September 27, 2013; (ii) extend the final payment dates for any amounts remaining outstanding under the agreement to September 28, 2015, or such earlier date as may be prescribed pursuant to the terms of the agreement; and (iii) change certain pricing terms. As of 2012 year end, 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 2012 year end, Snap-on was in compliance with all covenants of its debt agreements and credit facilities.

Snap-on believes that it has sufficient available cash and access to both committed and uncommitted credit facilities to cover its expected funding needs on both a short-term and long-term basis. Snap-on manages its aggregate short-term borrowings so as not to exceed its availability under its revolving credit facilities. If the need were to arise, Snap-on believes that it could access short-term debt markets, predominantly through commercial paper issuances, securitizations (including its $200 million loan and servicing agreement discussed above) and existing lines of credit to fund its short-term requirements and to ensure near-term liquidity. Snap-on regularly monitors the credit and financial markets and, in the future, may take advantage of what it believes are favorable market conditions to issue long-term debt to further improve its liquidity and capital resources. Near term liquidity requirements for Snap-on include payments of interest and dividends, funding to support new loans originated by our financial services businesses, capital expenditures, working capital, restructuring activities, the funding of pension plans, and funding for additional share repurchases and acquisitions, if any. Snap-on intends to make contributions of $10.2 million to its foreign pension plans and $1.6 million to its domestic pension plans in 2013, as required by law. Depending on market and other conditions, Snap-on may elect to make discretionary cash contributions to its domestic pension plans in 2013.

Snap-on s long-term financing strategy is to maintain continuous access to the debt markets to accommodate its liquidity needs, including the potential use of commercial paper, securitizations and/or additional fixed-term debt.

The following discussion focuses on information included in the accompanying Consolidated Statements of Cash Flow.

Operating Activities

Net cash provided by operating activities was $329.3 million in 2012, $128.5 million in 2011 and $140.4 million in 2010. Net cash provided by operating activities in 2012 primarily reflects the impact of net year-over-year changes in operating assets and liabilities, as well as higher net earnings. Net cash provided by operating activities in 2011 included the effect of last year s return of $89.8 million of cash previously withheld from CIT. 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. Net cash provided by operating activities in 2012 also reflects the impact of $54.7 million of discretionary cash contributions to the company s domestic pension plans; in both 2011 and 2010, Snap-on made discretionary cash contributions of $48.0 million to its domestic pension plans.

Depreciation expense was $50.2 million in 2012, $49.3 million in 2011 and $48.7 million in 2010. Amortization expense was $26.5 million in 2012, $25.3 million in 2011 and $24.0 million in 2010. See Note 6 to the Consolidated Financial Statements for information on acquired intangible assets.

Investing Activities

Net cash used by investing activities of $173.1 million in 2012 included additions to, and collections of, finance receivables of $569.6 million and $445.5 million, respectively, as well as $27.0 million of proceeds from the sale of a non-strategic equity investment at book value. Net cash used by investing activities of $219.6 million in 2011 included additions to, and collections of, finance receivables of $519.1 million and $356.9 million, respectively. Net cash used by investing activities of $303.0 million in 2010 included additions to, and collections of, finance receivables of $497.6 million and $245.2 million, respectively. Finance receivables are comprised of extended-term installment loans to both technicians and independent shop owners (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.

Capital expenditures in 2012, 2011 and 2010 totaled $79.4 million, $61.2 million and $51.1 million, respectively. Capital expenditures in 2012 included continued investments related to the company s execution of its strategic Value Creation Processes around safety, quality, customer connection, innovation and rapid continuous improvement. Capital expenditures in all three years included spending to support the company s strategic growth initiatives, including the expansion of manufacturing capabilities in emerging growth markets. Following the 2011 construction of a new engineering and research and development facility in Kunshan, China, the company completed, in 2012, the construction of a fourth factory in Kunshan, China. Capital expenditures in all three years also included investments, particularly in the United States, in new product, efficiency, safety and cost reduction initiatives, as well as investments in new production and machine tooling to enhance manufacturing operations, and ongoing replacements of manufacturing and distribution equipment. Capital spending in all three years also included spending for the replacement and enhancement of the company s global enterprise resource planning (ERP) management information systems, as well as spending to enhance the company s corporate headquarters and research and development facilities in Kenosha, Wisconsin. Snap-on believes that its cash generated from operations, as well as its available cash on hand and funds available from its credit facilities will be sufficient to fund the company s capital expenditure requirements in 2013.

In 2010, Snap-on acquired the remaining 40% interest in Snap-on Asia Manufacturing (Zhejiang) Co., Ltd., the company s tool manufacturing operation in Xiaoshan, China, for a purchase price of $7.7 million and $0.1 million of transaction costs; Snap-on acquired the initial 60% interest in 2008. See Note 2 to the Consolidated Financial Statements for additional information.

Financing Activities

Net cash used by financing activities was $127.0 million in 2012. Net cash used by financing activities of $293.7 million in 2011 included the August 2011 repayment of $200 million of unsecured 6.25% notes upon maturity with available cash.

In December 2010, Snap-on sold $250 million of unsecured 4.25% long-term notes at a discount; Snap-on is using, and has used, the $247.7 million of proceeds from the sale of these notes, net of $1.6 million of transaction costs, for general corporate purposes, which included working capital, capital expenditures, repayment of all or a portion of the company s $200 million, 6.25% unsecured notes that matured in August 2011, and the financing of finance and contract receivables, primarily related to SOC. In January 2010, Snap-on repaid $150 million of unsecured floating rate debt upon maturity with available cash.

Proceeds from stock purchase and option plan exercises totaled $46.8 million in 2012, $25.7 million in 2011 and $23.7 million in 2010. Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and franchisee stock purchase plans, stock options and other corporate purposes. In 2012, Snap-on repurchased 1,180,000 shares of its common stock for $78.1 million under its previously announced share repurchase programs. As of 2012 year end, Snap-on had remaining availability to repurchase up to an additional $180.9 million in common stock pursuant to its Board of Directors (the Board) authorizations. The purchase of Snap-on common stock is at the company s discretion, subject to prevailing financial and market conditions. Snap-on repurchased 628,000 shares of its common stock for $37.4 million in 2011; Snap-on repurchased 152,000 shares of its common stock for $8.7 million in 2010. Snap-on believes that its cash generated from operations, available cash on hand, and funds available from its credit facilities, will be sufficient to fund the company s share repurchases, if any, in 2013.

Snap-on has paid consecutive quarterly cash dividends, without interruption or reduction, since 1939. Cash dividends paid in 2012, 2011 and 2010 totaled $81.5 million, $76.7 million and $71.3 million, respectively. On November 1, 2012, the company announced that its Board increased the quarterly cash dividend by 11.8% to $0.38 per share ($1.52 per share per year). Quarterly dividends declared in 2012 were $0.38 per share in the fourth quarter and $0.34 per share in the first three quarters ($1.40 per share for the year). Quarterly dividends in 2011 were $0.34 per share in the fourth quarter and $0.32 per share in the first three quarters ($1.30 per share for the year). Quarterly dividends in 2010 were $0.32 per share in the fourth quarter and $0.30 per share in the first three quarters ($1.22 per share for the year).

	2012	2011	2010
Cash dividends paid per common share	$ 1.40	$ 1.30	$ 1.22
Cash dividends paid as a percent of prior-year retained earnings	4.4%	4.7%	4.7%

Snap-on believes that its cash generated from operations, available cash on hand and funds available from its credit facilities will be sufficient to pay dividends in 2013.

Off-Balance-Sheet Arrangements

Except as included below in the section labeled Contractual Obligations and Commitments and Note 15 to the Consolidated Financial Statements, the company had no off-balance-sheet arrangements as of 2012 year end.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Contractual Obligations and Commitments

A summary of Snap-on s future contractual obligations and commitments as of 2012 year end are as follows:

(Amounts in millions)	Total	2013	2014 2015	2016 2017	2018 and thereafter
Contractual obligations:					
Notes payable	$ 5.2	$ 5.2	$	$	$
Long-term debt	970.4		100.0	150.0	720.4
Interest on fixed rate debt	308.9	53.4	96.1	87.3	72.1
Operating leases	83.0	23.0	30.3	14.8	14.9
Capital leases	44.1	7.7	13.9	8.1	14.4
Purchase obligations	9.4	8.6	0.8		
Total	$ 1,421.0	$ 97.9	$ 241.1	$ 260.2	$ 821.8

Snap-on intends to make contributions of $10.2 million to its foreign pension plans and $1.6 million to its domestic pension plans in 2013, as required by law. Depending on market and other conditions, Snap-on may elect to make discretionary cash contributions to its domestic pension plans in 2013. Snap-on has not presented estimated pension and postretirement funding contributions in the table above as the funding can vary from year to year based upon changes in the fair value of the plan assets and actuarial assumptions; see Notes 11 and 12 to the Consolidated Financial Statements for information on the company s benefit plans and payments.

Due to the uncertainty of the timing of settlements with taxing authorities, Snap-on is unable to make reasonably reliable estimates of the period of cash settlement of unrecognized tax benefits for its remaining uncertain tax liabilities. As a result, $6.8 million of unrecognized tax benefits have been excluded from the table above; see Note 8 to the Consolidated Financial Statements for information on income taxes.

Environmental Matters

Snap-on is subject to various federal, state and local government requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. Snap-on s policy is to comply with these requirements and the company believes that, as a general matter, its policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage, and of resulting financial liability, in connection with its business. Some risk of environmental damage is, however, inherent in some of Snap-on s operations and products, as it is with other companies engaged in similar businesses.

Snap-on is and has been engaged in the handling, manufacture, use and disposal of many substances classified as hazardous or toxic by one or more regulatory agencies. Snap-on believes that, as a general matter, its handling, manufacture, use and disposal of these substances are in accordance with environmental laws and regulations. It is possible, however, that future knowledge or other developments, such as improved capability to detect substances in the environment or increasingly strict environmental laws and standards and enforcement policies, could bring into question the company s handling, manufacture, use or disposal of these substances.

Affordable Care Act

The Affordable Care Act (the ACA), which was adopted in 2010 and is being phased in over several years, significantly affects the provision of both health care services and benefits in the United States; the ACA may impact our cost of providing our employees and retirees with health insurance and/or benefits, and may also impact various other aspects of our business. The ACA did not have a material impact on our fiscal 2012, 2011 or 2010 financial results; however, we are continuing to assess the impact of the ACA on our health care benefit costs.

New Accounting Standards

See Note 1 to the Consolidated Financial Statements for information on new accounting standards.

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Critical Accounting Policies and Estimates

The Consolidated Financial Statements and related notes contain information that is pertinent to management s discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. These estimates are generally based on historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources, as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates.

The company s significant accounting policies are described in Note 1 to the Consolidated Financial Statements.

Snap-on considers the following policies and estimates to be the most critical in understanding the judgments that are involved in the preparation of the company s consolidated financial statements and the uncertainties that could impact the company s financial position, results of operations and cash flows.

Revenue Recognition: Snap-on recognizes revenue from the sale of tools, diagnostics and equipment solutions when contract terms are met, the price is fixed or determinable, collectability is reasonably assured and a product is shipped or risk of ownership has been transferred to and accepted by the customer. For sales contingent upon customer acceptance, revenue recognition is deferred until such obligations are fulfilled. Estimated product returns are recorded as a reduction in reported revenues at the time of sale based upon historical product return experience and gross profit margin adjusted for known trends. Provisions for customer volume rebates, discounts and allowances are also recorded as a reduction of reported revenues at the time of sale based on historical experience and known trends. Revenue related to maintenance and subscription agreements is recognized over the terms of the respective agreements.

Snap-on also recognizes revenue related to multiple element arrangements, including sales of hardware, software and software-related services. When a sales arrangement contains multiple elements, such as hardware and software products and/or services, Snap-on uses the relative selling price method to allocate revenues between hardware and software elements. For software elements that are not essential to the hardware s functionality and related software post-contract customer support, vendor specific objective evidence (VSOE) of fair value is used to further allocate revenue to each element based on its relative fair value and, when necessary, the residual method is used to assign value to the delivered elements when VSOE only exists for the undelivered elements. The amount assigned to the products or services is recognized when the product is delivered and/or when the services are performed. In instances where the product and/or services are performed over an extended period, as is the case with subscription agreements or the providing of ongoing support, revenue is generally recognized on a straight-line basis over the term of the agreement, which generally ranges from 12 to 60 months.

Franchise Fee Revenue: Franchise fee revenue, including nominal, non-refundable initial fees, is recognized upon the granting of a franchise, which is when the company has performed substantially all initial services required by the franchise agreement. Franchise fee revenue also includes ongoing monthly fees (primarily for sales and business training and marketing and product promotion programs) that are recognized as the fees are earned. Franchise fee revenue totaled $9.9 million, $8.8 million and $9.0 million in fiscal 2012, 2011 and 2010, respectively.

Financial Services Revenue: Snap-on also generates revenue from various financing programs that include (i) loans to franchisees customers and Snap-on s industrial and other customers for the purchase or lease of tools, equipment and diagnostics on an extended term payment plan; and (ii) business loans and vehicle leases to franchisees. These financing programs are offered through Snap-on s finance subsidiaries. Financial services revenue consists primarily of finance loan receivable revenue and installment contract revenue. Revenue from interest income on the on-book financing portfolio is recognized over the life of the contracts, with interest computed on the average daily balances of the underlying contracts. Financial services revenue also includes servicing fee income received from CIT. Prior to July 2009, SOC substantially sold all of its loan originations to CIT on a limited recourse basis, and SOC retained the right to service such loans for a contractual servicing fee. Contractual servicing fees from CIT were $1.4 million, $2.3 million and $4.9 million in fiscal 2012, 2011 and 2010, respectively.

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The decision to finance through Snap-on or another financing entity is solely at the election of the customer. When assessing customers for potential financing, Snap-on considers various factors regarding ability to pay including customers financial condition, collateral, debt-servicing ability, past payment experience and credit bureau information. For finance and contract receivables, Snap-on assesses these factors through the use of credit quality indicators consisting primarily of customer credit risk scores combined with internal credit risk grades, collection experience and other internal metrics.

Financial Services Lease Arrangements: Snap-on accounts for its financial services leases as direct financing or sales-type leases. The company determines the gross investment in the lease as the present value of the minimum lease payments using the interest rate implicit in the lease, net of amounts, if any, included therein for executor costs to be paid by Snap-on, together with any profit thereon. The difference between the gross investment in the lease and the cost of the leased property is reported as unearned finance charges. Unearned finance charges are amortized to income over the life of the contract, with interest computed on the average daily balance of the underlying contract. The default covenants included in the lease arrangements are usual and customary, consistent with industry practice, and do not impact the lease classification. Except in circumstances where the company has concluded that a lessee s financial condition has deteriorated, the other default covenants under Snap-on s lease arrangements are objectively determinable.

Impairment of Goodwill and Other Indefinite-lived Intangible Assets: Goodwill and other indefinite-lived intangible assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. Annual impairment tests are performed by the company in the second quarter of each year.

Snap-on evaluates the recoverability of goodwill by estimating the future discounted cash flows of the businesses to which the goodwill relates. Estimated cash flows and related goodwill are grouped at the reporting unit level. The company has determined that its reporting units for testing goodwill impairment are its operating segments or components of an operating segment that constitute a business for which discrete financial information is available and for which segment management regularly reviews the operating results. Within its four reportable operating segments, the company has identified 11 reporting units.

Snap-on evaluates the recoverability of goodwill by utilizing an income approach that estimates the fair value of the future discounted cash flows of the reporting units to which the goodwill relates. The future projections, which are based on both past performance and the projections and assumptions used in the company s operating plans, are subject to change as a result of changing economic and competitive conditions. This approach reflects management s internal outlook at the reporting units, which management believes provides the best determination of value due to management s insight and experience with the reporting unit. Significant estimates used by management in the discounted cash flows methodology include estimates of future cash flows based on expected growth rates, price increases, working capital levels, expected benefits from RCI initiatives, and a weighted-average cost of capital that reflects the specific risk profile of the reporting unit being tested. The company s methodologies for valuing goodwill are applied consistently on a year-over-year basis; the assumptions used in performing the second quarter 2012 impairment calculations were evaluated in light of current market and business conditions. Snap-on continues to believe that the future discounted cash flow valuation model provides the most reasonable and meaningful fair value estimate based upon the reporting units projections of future operating results and cash flows and replicates how market participants would value the company s reporting units in an orderly transaction.

In the event the fair value of a reporting unit is less than the carrying value, including goodwill, the company would then perform an additional assessment that would compare the implied fair value of goodwill with the carrying amount of goodwill. The determination of implied fair value of goodwill would require management to compare the estimated fair value of the reporting unit to the estimated fair value of the assets and liabilities of the reporting unit; if necessary, the company may consult with valuation specialists to assist with the assessment of the estimated fair value of the assets and liabilities of the reporting unit. If the implied fair value of the goodwill is less than the carrying value, an impairment loss would be recorded.

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Snap-on also evaluates the recoverability of its indefinite-lived trademarks by utilizing an income approach that estimates the fair value of the future discounted cash flows of each of its trademarks. The future projections, which are based on both past performance and the projections and assumptions used in the company s operating plans, are subject to change as a result of changing economic and competitive conditions. Significant estimates used by management in the discounted cash flows methodology include estimates of future cash flows based on expected growth and royalty rates, expected synergies, and a weighted-average cost of capital that reflects the specific risk profile of the trademark being tested. The company s methodologies for valuing trademarks are applied consistently on a year-over-year basis; the assumptions used in performing the second quarter 2012 impairment calculations were evaluated in light of current market and business conditions. Snap-on continues to believe that the future discounted cash flow valuation model provides the most reasonable and meaningful fair value estimate based upon the trademarks projected future cash flows and replicates how market participants would value the company s trademarks in an orderly transaction.

Inherent in fair value determinations are significant judgments and estimates, including material assumptions about future revenue, profitability and cash flows, the company s operational plans and its interpretation of current economic indicators. Should the operations of the businesses with which goodwill or other indefinite-lived intangible assets are associated incur significant declines in profitability and cash flow due to significant and long-term deterioration in macroeconomic, industry and market conditions, including in Europe, the loss of key customers, changes in technology or markets, significant changes in key personnel or litigation, a significant and sustained decrease in share price and/or other events, including effects from the sale or disposal of a reporting unit, some or all of the recorded goodwill or other indefinite-lived intangible assets could be subject to impairment and could result in a material adverse effect on Snap-on s financial position or results of operations.

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. As of 2012 year end, the company has no accumulated impairment losses. Although the company consistently uses the same methods in developing the assumptions and estimates underlying the fair value calculations, such estimates are uncertain by nature and can vary from actual results. In performing its annual impairment testing the company performed a sensitivity analysis on the material assumptions used in the discounted cash flow valuation models for each of its 11 reporting units. Based on the company s second quarter 2012 impairment testing and assuming a hypothetical 10% decrease in the estimated fair values of each of its 11 reporting units, the hypothetical fair value of each of the company s 11 reporting units would have been greater than its carrying value. See Note 6 to the Consolidated Financial Statements for further information about goodwill and other intangible assets.

Impairment of Long-lived and Amortized Intangible Assets: Snap-on performs impairment evaluations of its long-lived assets, including property, plant and equipment and intangible assets with finite lives, whenever business conditions or events indicate that those assets may be impaired. When the estimated future undiscounted cash flows to be generated by the assets are less than the carrying value of the long-lived assets, the assets are written down to fair market value and a charge is recorded to current operations.

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, including in Europe, the loss of key customers, changes in technology or markets and/or other events, including effects from the sale or disposal of a reporting unit, could require a provision for impairment in a future period.

Allowances for Doubtful Accounts: Snap-on maintains allowances for doubtful accounts to absorb probable losses inherent in its portfolio of receivables. The allowances for doubtful accounts represent management s estimate of the losses inherent in the company s receivables portfolio based on ongoing assessments and evaluations of collectability and historical loss experience. In estimating losses inherent in each of its receivable portfolios (trade, finance and contract receivables), Snap-on uses historical loss experience rates by portfolio and applies them to a related aging analysis. Determination of the proper level of allowances by portfolio requires management to exercise significant judgment about the timing, frequency and severity of credit losses that could materially affect the provision for credit losses and, therefore, net income. The allowances for doubtful accounts takes into consideration numerous quantitative and qualitative factors, by loan type, including historical loss experience, portfolio duration, collection experience, delinquency trends, economic conditions and credit risk quality as follows:

Snap-on evaluates the collectability of receivables based on a combination of various financial and qualitative factors that may affect the customers ability to pay. These factors may include customers financial condition, collateral, debt-servicing ability, past payment experience and credit bureau information.

For finance and contract receivables, Snap-on assesses quantitative and qualitative factors through the use of credit quality indicators consisting primarily of customer credit risk scores combined with internal credit risk grades, collection experience and other internal metrics as follows:

Credit risk Customer credit risk is monitored regularly on an account by account basis through customer credit scores obtained from major credit bureaus as well as through the use of internal proprietary, custom scoring models used to evaluate each transaction at the time of the application for credit and by periodically updating those credit scores for ongoing monitoring purposes. In addition, Snap-on evaluates credit quality through the use of a loan risk grading measurement system that provides a framework to analyze the finance and contract receivables on the basis of risk factors of the individual obligor as well as transaction specific risk.

Collection experience Snap-on conducts monthly reviews of credit and collection performance for each of its finance and contract receivable portfolios focusing on data such as delinquency trends, non-performing assets, charge-off and recovery activity. These reviews allow for the formulation of collection strategies and potential collection policy modifications in response to changing risk profiles in the finance and contract receivable portfolios.

Other internal metrics Snap-on maintains a system that aggregates credit exposure by customer, industry, risk classification and geographical area, among other factors, to further monitor changing risk profiles.

Management performs detailed reviews of its receivables on a monthly and/or quarterly basis to assess the adequacy of the allowances based on historical and current trends and other factors affecting credit losses and to determine if any impairment has occurred. 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 agreement. In circumstances where the company is aware of a specific customer s inability to meet its financial obligations, a specific reserve is recorded against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Additions to the allowances for doubtful accounts are maintained through adjustments to the provision for credit losses, which are charged to current period earnings; amounts determined to be uncollectable are charged directly against the allowances, while amounts recovered on previously charged-off accounts increase the allowances. Net charge-offs include the principal amount of losses charged-off as well as charged-off interest and fees. Recovered interest and fees previously charged-off are recorded through the allowances for doubtful accounts and increase the allowances. Finance receivables are assessed for charge-off when an account becomes 120 days past due and are charged-off typically within 60 days of asset repossession. Contract receivables related to equipment leases are generally charged-off when an account becomes 150 days past due, while contract receivables related to franchise finance and van leases are generally charged-off up to 180 days past the asset return. For finance and contract receivables, customer bankruptcies are generally charged-off upon notification that the associated debt is not being reaffirmed or, in any event, no later than 180 days past due.

Snap-on does not believe that its trade accounts, finance or contract receivables represent significant concentrations of credit risk because of the diversified portfolio of individual customers and geographical areas. See Note 3 to the Consolidated Financial Statements for further information on allowances for doubtful accounts.

Excess and Obsolete Inventory: Snap-on records allowances for excess and obsolete inventory based on historical and estimated future demand and market conditions. Allowances for raw materials are largely based on an analysis of raw material age and actual physical inspection of raw material for fitness for use. As part of evaluating the adequacy of allowances for work-in-progress and finished goods, management reviews individual product stock-keeping units (SKUs) by product category and product life cycle. Cost adjustments for each product category/product life-cycle state are generally established and maintained based on a combination of historical experience, forecasted sales and promotions, technological obsolescence, inventory age and other actual known conditions and circumstances. Should actual product marketability and raw material fitness for use be affected by conditions that are different from management estimates, further adjustments to inventory allowances may be required.

Pension Benefits: The pension benefit obligation and related pension expense are calculated in accordance with U.S. GAAP and are impacted by certain actuarial assumptions. Changes in these assumptions are primarily influenced by factors outside of Snap-on s control and can have a significant effect on the amounts reported in the financial statements. Snap-on believes that the two most critical assumptions are (i) the expected return on plan assets; and (ii) the assumed discount rate.

Pension expense increases as the expected rate of return on plan assets decreases. Lowering the expected rate of return assumption for Snap-on s domestic pension plan assets by 50 basis points would have increased Snap-on s 2012 domestic pension expense by approximately $3.7 million. Snap-on uses a three-year, market-related value asset method of amortizing the difference between actual and expected returns on its domestic plans assets.

The objective of Snap-on s discount rate assumption is to reflect the rate at which the pension benefits could be effectively settled. In making this determination, the company takes into account the timing and amount of benefits that would be available under the plans. The discount rate assumption used to determine the December 29, 2012 projected benefit obligation was based on a cash flow matching methodology developed by the company s outside actuaries and which incorporates a review of current economic conditions. The methodology for selecting the discount rate as of 2012 year end was to match the plans yearly projected benefit cash flows to those of hypothetical bond portfolios using high-quality, AA rated or better, corporate bonds from either Moody s Investors Service or Standard & Poor s credit rating agencies available at the measurement date. This technique calculates bond portfolios that produce adequate cash flows to pay the plans projected yearly benefits and then selects the portfolio with the highest yield and uses that yield as the recommended discount rate.

The selection of the 4.3% weighted-average discount rate for Snap-on s domestic pension plans as of 2012 year end represents the single rate that produces the same present value of cash flows as the estimated benefit plan payments. Lowering Snap-on s domestic discount rate assumption by 50 basis points would have increased Snap-on s 2012 domestic pension expense and projected benefit obligations by approximately $6.3 million and $60.5 million, respectively. As of 2012 year end, Snap-on s domestic projected benefit obligation comprised approximately 82% of Snap-on s worldwide projected benefit obligation. The weighted-average discount rate for Snap-on s foreign pension plans of 4.1% represents the single rate that produces the same present value of cash flows as the estimated benefit plan payments. Lowering Snap-on s foreign discount rate assumption by 50 basis points would have increased Snap-on s 2012 foreign pension expense and projected benefit obligation by approximately $1.6 million and $21.6 million, respectively.

Actuarial gains and losses in excess of 10 percent of the greater of the projected benefit obligation or market-related value of assets are amortized on a straight-line basis over the average remaining service period of active participants. Prior service costs resulting from plan amendments are amortized in equal annual amounts over the average remaining service period of affected active participants or over the remaining life expectancy of affected retired participants. See Note 11 to the Consolidated Financial Statements for further information on pension plans.

Postretirement Benefits: Snap-on s postretirement benefits obligation and related expense are calculated in accordance with U.S. GAAP and are impacted by certain actuarial assumptions, including health care trend rates. As of 2012 year end, a one-percentage-point increase in the health care cost trend rate for future years would increase the accumulated postretirement benefit obligation by approximately $1.3 million and the aggregate of the service cost and interest cost components by $0.1 million. Conversely, a one-percentage-point decrease in the health care cost trend rate for future years would decrease the accumulated postretirement benefit obligation by $1.1 million and the aggregate of the service cost and interest cost components by $0.1 million. See Note 12 to the Consolidated Financial Statements for further information on postretirement plans.

Income Taxes: Snap-on records deferred income tax assets and liabilities for differences between the book basis and tax basis of the related net assets. Snap-on records a valuation allowance, when appropriate, to reduce its deferred tax assets if it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. While the company has considered future taxable income and ongoing prudent and feasible tax strategies in assessing the need for the valuation allowance, if these estimates and assumptions change in the future, the company may be required to adjust its valuation allowance. This could result in a charge to, or an increase in, income in the period such determination is made.

In addition, the company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The company records accruals for the estimated outcomes of these audits and the accruals may change in the future due to new developments in each matter. See Note 8 to the Consolidated Financial Statements for further information on income taxes.

Outlook

Snap-on believes that the continued advancement of its strategic framework will provide the opportunity to further capitalize on its defined runways for coherent growth and create long-term value for its shareholders. Growth opportunities in 2013 will focus on vehicle repair technicians, repair shop owners and managers, critical industries and emerging markets. For vehicle repair technicians, the company intends to continue to enhance its mobile tool distribution network by reaching more vehicle repair technicians, and improve franchisee productivity, profitability, satisfaction and commercial health. Similarly, Snap-on seeks to further expand its presence with repair shop owners and managers through direct and distributor channels within its Repair Systems & Information Group with new and expanded product introductions and services. The company also expects, as part of its coherent growth strategy, to continue rolling the Snap-on brand out of the garage, providing professional technicians in a diverse cross-section of critical industries with a broad range of productivity-enhancing solutions suited to their unique needs. Snap-on also intends to continue investing in emerging markets, including the further expansion of its manufacturing capabilities and product offerings in this arena. In 2013, our financial services businesses will continue to focus on delivering financial products and services that attract and sustain profitable franchisees and support Snap-on s strategies for expanding market coverage and penetration. Snap-on believes that it is well-positioned to carry out its growth plans and capitalize on positive long-term trends in 2013, however, global market and economic conditions could impact the level and timing of resources deployed in pursuit of these strategic initiatives, and Snap-on s ability to achieve growth will depend on these as well as other factors that could impact the company s actual results.

In 2013, Snap-on expects to continue with the advancement of its strategic framework designed to enhance its mobile tool distribution network, expand in the vehicle repair garage, extend to critical industries and build in emerging markets. In pursuit of these initiatives, Snap-on anticipates that capital expenditures in 2013 will be in a range of $70 million to $80 million. Snap-on expects that its full year 2013 effective income tax rate will be comparable to its 2012 rate.

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Item 7A: Quantitative and Qualitative Disclosures About Market Risk

Market, Credit and Economic Risks

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. Snap-on is exposed to market risk from changes in both foreign currency exchange rates and interest rates. Snap-on monitors its exposure to these risks and attempts to manage the underlying economic exposures through the use of financial instruments such as foreign currency forward contracts, interest rate swap agreements and treasury lock agreements. Snap-on does not use derivative instruments for speculative or trading purposes. Snap-on s broad-based business activities help to reduce the impact that volatility in any particular area or related areas may have on its operating earnings as a whole. Snap-on s management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks.

Foreign Currency Risk Management

Snap-on has significant international operations and is subject to certain risks inherent with foreign operations that include currency fluctuations. Foreign 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. See Note 10 to the Consolidated Financial Statements for information on foreign currency risk management.

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 from time to time to manage potential changes in interest rates in anticipation of the issuance or sale of certain financial instruments. See Note 10 to the Consolidated Financial Statements for information on interest rate risk management.

Snap-on utilizes a Value-at-Risk (VAR) model to determine the potential one-day loss in the fair value of its interest rate and foreign exchange-sensitive financial instruments from adverse changes in market factors. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Snap-on s computations are based on the inter-relationships among movements in various currencies and interest rates (variance/co-variance technique). These inter-relationships were determined by observing interest rate and foreign currency market changes over the preceding quarter.

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, as of 2012 and 2011 year end was $1.3 million and $2.3 million, respectively, on interest rate-sensitive financial instruments, and $0.4 million and $0.6 million, respectively, on foreign currency-sensitive financial instruments. The VAR model is a risk management tool and does not purport to represent actual losses in fair value that will be incurred by Snap-on, nor does it consider the potential effect of favorable changes in market factors.

Credit Risk

Credit risk is the possibility of loss from a customer s failure to make payments according to contract terms. Prior to granting credit, each customer is evaluated, taking into consideration the borrower s financial condition, collateral, debt-servicing capacity, past payment experience, credit bureau information, and other financial and qualitative factors that may affect the borrower s ability to repay. Credit risk is also monitored regularly through the use of internal proprietary, custom scoring models used to evaluate each transaction at the time of the application for credit and by periodically updating those credit scores for ongoing monitoring purposes. Snap-on evaluates credit quality through the use of an internal proprietary measuring system that provides a framework to analyze finance and contract receivables on the basis of risk factors of the individual obligor as well as transaction specific risk. Loans that have been granted are typically monitored through an asset quality review process that closely monitors past due accounts and initiates a progressive collection action process when appropriate. In addition to its direct credit risk exposure, Snap-on also has credit risk exposure for certain SOC-originated contracts with recourse provisions related to franchisee van loans sold by SOC; as of 2012 and 2011 year end, $13.3 million and $13.9 million, respectively, of franchisee van loans contain a recourse provision to Snap-on if the loans become more than 90 days past due.

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Counterparty Risk

Snap-on is exposed to credit losses in the event of non-performance by the counterparties to its various financial agreements, including its foreign currency forward contracts and interest rate swap 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 generally enters into agreements 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.

Economic Risk

Economic risk is the possibility of loss resulting from economic instability in certain areas of the world. Snap-on continually monitors its exposure in these markets.

As a result of the above market, credit and economic risks, net income and revenues in any particular period may not be representative of full-year results and may vary significantly from year to year. Inflation has not had a significant impact on the company.

Commodity Risk

Snap-on is a purchaser of certain commodities such as steel, natural gas and electricity. The company is also a purchaser of components and parts that are integrated into the company s end products, as well as the purchaser of certain finished goods, all of which may contain various commodities including steel, aluminum and others. Snap-on s supply of raw materials and purchased components are generally and readily available from numerous suppliers.

The principal raw material used in the manufacture of the company s products is steel, which the company purchases in competitive, price-sensitive markets. To meet Snap-on s high quality standards, the company s steel needs range from specialized alloys, which are available only from a limited group of approved suppliers, to commodity types of alloys. These raw materials have historically exhibited price and demand cyclicality. Some of these materials have been, and in the future may be, in short supply. As some steel alloys require specialized manufacturing procedures, Snap-on could experience inventory shortages if it were required to use an alternative manufacturer on short notice. Additionally, unexpected price increases could result in higher prices to Snap-on s customers or an erosion of the margins on its products.

Snap-on believes its ability to sell product is also dependent on the number of vehicles on the road, the number of miles driven and the general aging of vehicles. These factors affect the frequency, type and amount of service and repair performed on vehicles by technicians, and therefore affect the demand for the number of technicians, the prosperity of the technicians and, subsequently, the demand the technicians have for the company s tools, other products and services, and the value they place on those products and services. To the extent that the prices of gasoline and other petroleum-based fuels increase, as they have at times in recent years, consumers may turn to other methods of transportation, including more frequent use of public transportation, which could result in a decrease in the use of privately operated vehicles. A decrease in the use of privately operated vehicles may lead to fewer repairs and less demand for the company s products.

To the extent that commodity prices increase and the company does not have firm pricing agreements with its suppliers, the company may experience margin declines to the extent that it is not able to increase the selling prices of its products.

Item 8: Financial Statements and Supplementary Data

The financial statements and schedules are listed on page 61 and are incorporated by reference in this Item 8.

Item 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

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Item 9A: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Snap-on maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that material information relating to the company and its consolidated subsidiaries is timely communicated to the officers who certify Snap-on s financial reports and to other members of senior management and the Board, as appropriate.

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act), the company s management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 29, 2012. Based upon their evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 29, 2012, to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control

There has not been any change in the company s internal control over financial reporting during the quarter ended December 29, 2012, that has materially affected, or is reasonably likely to materially affect, the company s internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)).

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework*. Based on this assessment, the company s management believes that, as of December 29, 2012, our internal control over financial reporting was effective at a reasonable assurance level. The company s internal control over financial reporting as of December 29, 2012, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their attestation report, which is included herein.

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all error or fraud. Because of inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Snap-on Incorporated:

We have audited the internal control over financial reporting of Snap-on Incorporated and subsidiaries (the Company) as of December 29, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 29, 2012, of the Company and our report dated February 14, 2013, expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin

February 14, 2013

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Item 9B: Other Information

None.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

Incorporated by reference to sections entitled Item 1: Election of Directors, Corporate Governance Practices and Board Information and Other Information in Snap-on s 2013 Annual Meeting Proxy Statement, which is expected to be mailed to shareholders on or about March 12, 2013 (the 2013 Proxy Statement).

The Section 16(a) filing compliance disclosure pursuant to Item 405 of Regulation S-K is contained in Snap-on s 2013 Proxy Statement in the section entitled Other Information Section 16(a) Beneficial Ownership Reporting Compliance, and is incorporated herein by reference.

Information regarding Snap-on s executive officers, including their ages, business experience (for at least the last five years) and titles as of December 29, 2012, is presented below:

Nicholas T. Pinchuk (66) Chairman of the Board of Directors since 2009, President and Chief Executive Officer since December 2007 and President and Chief Operating Officer from April to December 2007. Senior Vice President and President Worldwide Commercial & Industrial Group from 2002 to 2007. Prior to joining Snap-on, Mr. Pinchuk held various positions, including President of Global Refrigeration Operations and President of Asia Pacific Operations, at Carrier Corporation, a producer of air conditioning, heating and refrigeration systems, and a subsidiary of United Technologies Corporation. Mr. Pinchuk serves on the board of directors of Columbus McKinnon Corporation.

Aldo J. Pagliari (58) Senior Vice President Finance and Chief Financial Officer since 2010. President Snap-on Equipment from 2007 to 2010, and Group Controller / Director of Finance Commercial & Industrial Group from 2002 to 2007.

Iain Boyd (50) Vice President Human Resources since 2007. Vice President, Human Resources Snap-on Tools Group from 2004 to 2007.

Constance R. Johnsen (55) Vice President and Controller since 2003.

Thomas L. Kassouf (60) Senior Vice President and President Snap-on Tools Company LLC since 2010. Senior Vice President and President Commercial Division from 2007 to 2010. President Commercial Group from April 2007 to December 2007, and President Equipment Worldwide from 2003 to 2007.

Jeanne M. Moreno (58) Vice President and Chief Information Officer since 2005.

Irwin M. Shur (54) Vice President, General Counsel and Secretary since 2008. Prior to joining Snap-on, Mr. Shur was Vice President and General Counsel of Enodis plc, a manufacturer of equipment for the commercial foodservice industry.

Thomas J. Ward (60) Senior Vice President and President Repair Systems & Information Group since 2010. Senior Vice President and President Snap-on Tools Company LLC from 2007 to 2010. Senior Vice President and President Diagnostics & Information Group from 2005 to 2007.

There is no family relationship among the executive officers and there has been no involvement in legal proceedings during the past five years that would be material to the evaluation of the ability or integrity of any of the executive officers. Executive officers may be elected by the Board or appointed by the Chief Executive Officer at the regular meeting of the Board that follows the Annual Shareholders Meeting, which is ordinarily held in April each year, and at such other times as new positions are created or vacancies must be filled.

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Code of Ethics and Web Site Disclosure

Snap-on has adopted a written code of ethics that applies to its Chief Executive Officer, Chief Financial Officer, Vice President and Controller, and all other financial officers and executives performing similar functions. Snap-on has posted a copy of the code of ethics in the Investors/Corporate Governance section on the company s web site at www.snapon.com. Snap-on will also post any amendments to these documents, or information about any waivers granted to directors or executive officers with respect to the Code of Business Conduct and Ethics, on the company s web site at www.snapon.com.

Snap-on intends to satisfy the disclosure requirements under Item 10 of Form 8-K regarding amendments to, or waivers from, the code of ethics by posting such information in the Investors section of its corporate web site at www.snapon.com.

Item 11: Executive Compensation

The information required by Item 11 is contained in Snap-on s 2013 Proxy Statement in the sections entitled Executive Compensation, Board Compensation, Compensation Committee Report, and Other Information and is incorporated herein by reference.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information about Snap-on s equity compensation plans at 2012 year end:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,229,177 (1)	$ 50.48 (2)	5,073,643 (3)
Equity compensation plans not approved by security holders	62,794 (4)	Not Applicable	(5)
Total	2,291,971	$ 50.48 (2)	5,073,643 (5)

(1) Includes (i) options to acquire 1,545,744 shares granted under the 2001 Incentive Stock and Awards Plan; (ii) options to acquire 614,762 shares granted under the 2011 Incentive Stock and Awards Plan; and (iii) 68,671 shares represented by deferred share units under the Directors Fee Plan. Excludes 520,381 and 221,335 shares issuable in connection with the vesting of performance share awards, restricted stock units and restricted stock under the respective 2001 and 2011 Incentive Stock and Awards Plans (collectively, the Incentive Stock and Awards Plans). Also excludes shares of common stock that may be issuable under the employee and franchisee stock purchase plans.

(2) Reflects only the weighted-average exercise price of outstanding stock options granted under the Incentive Stock and Awards Plans and does not include shares represented by deferred share units under the Directors Fee Plan and shares issuable in connection with the vesting of restricted stock units or performance units under the Incentive Stock and Awards Plans for which there are no exercise prices. Also excludes shares of common stock that may be issuable under the employee and franchisee stock purchase plans.

(3) Includes (i) 3,914,882 shares reserved for issuance under the 2011 Incentive Stock and Awards Plan; (ii) 143,695 shares reserved for issuance under the Directors Fee Plan; and (iii) 1,015,066 shares reserved for issuance under the employee stock purchase plan. No further awards may be granted under the 2001 Incentive Stock and Awards Plan.

(4) Consists of deferred share units under Snap-on s Deferred Compensation Plan, which allows elected and appointed officers of Snap-on to defer all or a percentage of their respective annual salary and/or incentive compensation. The deferred share units are payable in shares of Snap-on common stock on a one-for-one basis and are calculated at fair market value. Shares of common stock delivered under the Deferred Compensation Plan are previously issued shares reacquired and held by Snap-on.

(5) The Deferred Compensation Plan provides that Snap-on will make available, as and when required, a sufficient number of shares of common stock to meet the needs of the plan. It further provides that such shares shall be previously issued shares reacquired and held by Snap-on.

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The additional information required by Item 12 is contained in Snap-on s 2013 Proxy Statement in the sections entitled Executive Compensation, Security Ownership of Certain Beneficial Owners and Management and Other Information and is incorporated herein by reference.

Item 13: Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference to the sections entitled Corporate Governance Practices and Board Information Board Information and Other Information Transactions with the Company in Snap-on s 2013 Proxy Statement.

Item 14: Principal Accounting Fees and Services

Incorporated by reference to the section entitled Deloitte & Touche LLP Fee Disclosure in Snap-on s 2013 Proxy Statement.

PART IV

Item 15: Exhibits, Financial Statement Schedules

Item 15(a): Documents Filed as Part of This Report:

1. List of Financial Statements

Unless otherwise indicated, references in the accompanying financial statements and notes to fiscal 2012 or 2012 refer to the fiscal year ended December 29, 2012; references to fiscal 2011 or 2011 refer to the fiscal year ended December 31, 2011; and references to fiscal 2010 or 2010 refer to the fiscal year ended January 1, 2011. Balance sheet references in the accompanying financial statements and notes to 2012, 2011 and 2010 year end refer to balances as of December 29, 2012, December 31, 2011, and January 1, 2011, respectively.

The following consolidated financial statements of Snap-on and the Report of Independent Registered Public Accounting Firm thereon, are filed as part of this report:

Report of Independent Registered Public Accounting Firm.

Consolidated Statements of Earnings for the 2012, 2011 and 2010 fiscal years.

Consolidated Statements of Comprehensive Income for the 2012, 2011 and 2010 fiscal years.

Consolidated Balance Sheets as of 2012 and 2011 year end.

Consolidated Statements of Equity for the 2012, 2011 and 2010 fiscal years.

Consolidated Statements of Cash Flow for the 2012, 2011 and 2010 fiscal years.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

All schedules are omitted because they are not applicable, or the required information is included in the consolidated financial statements or notes thereto.

3. List of Exhibits

The exhibits filed with or incorporated by reference in this report are as specified in the exhibit index included herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Snap-on Incorporated:

We have audited the accompanying consolidated balance sheets of Snap-on Incorporated and subsidiaries (the Company) as of December 29, 2012, and December 31, 2011, and the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the three years in the period ended December 29, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Snap-on Incorporated and subsidiaries as of December 29, 2012, and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 29, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2013, expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP
DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
February 14, 2013

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Consolidated Statements of Earnings

(Amounts in millions, except per share data)	2012	2011	2010
Net sales	$ 2,937.9	$ 2,854.2	$ 2,619.2
Cost of goods sold	(1,547.9)	(1,516.3)	(1,408.1)
Gross profit	1,390.0	1,337.9	1,211.1
Operating expenses	(980.3)	(953.7)	(894.1)
Operating earnings before financial services	409.7	384.2	317.0
Financial services revenue	161.3	124.3	62.3
Financial services expenses	(54.6)	(51.4)	(47.9)
Operating earnings from financial services before arbitration settlement	106.7	72.9	14.4
Arbitration settlement		18.0	
Operating earnings from financial services	106.7	90.9	14.4
Operating earnings	516.4	475.1	331.4
Interest expense	(55.8)	(61.2)	(54.8)
Other income (expense) net	(0.4)	(1.0)	0.8
Earnings before income taxes and equity earnings	460.2	412.9	277.4
Income tax expense	(148.2)	(133.7)	(87.6)
Earnings before equity earnings	312.0	279.2	189.8
Equity earnings, net of tax	2.6	4.6	3.2
Net earnings	314.6	283.8	193.0
Net earnings attributable to noncontrolling interests	(8.5)	(7.5)	(6.5)
Net earnings attributable to Snap-on Incorporated	$ 306.1	$ 276.3	$ 186.5
Net earnings per share attributable to Snap-on Incorporated:			
Basic	$ 5.26	$ 4.75	$ 3.22
Diluted	5.20	4.71	3.19
Weighted-average shares outstanding:			
Basic	58.2	58.2	58.0
Effect of dilutive options	0.7	0.5	0.4
Diluted	58.9	58.7	58.4

See Notes to Consolidated Financial Statements.

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Consolidated Statements of Comprehensive Income

(Amounts in millions)	2012	2011	2010
Comprehensive income (loss):			
Net earnings	$ 314.6	$ 283.8	$ 193.0
Other comprehensive income (loss):			
Foreign currency translation*	35.0	(11.5)	(24.7)
Unrealized cash flow hedges, net of tax:			
Change in cash flow hedge			2.2
Less amortization of cash flow hedges to net earnings	(0.4)	(0.4)	(0.1)
	(0.4)	(0.4)	2.1
Defined benefit pension and postretirement plans:			
Prior service cost and unrecognized loss, net of tax of $7.9 million, $42.2 million and $15.4 million, respectively	(12.0)	(78.8)	(27.3)
Realized settlement loss in 2012, net of tax of $1.7 million	5.1		
Realized curtailment loss in 2010, net of tax of $0.3 million			0.6
Less amortization of prior service costs and unrecognized loss included in net periodic benefit cost, net of tax of $19.9 million, $11.3 million and $7.3 million, respectively	22.7	20.9	12.9
	15.8	(57.9)	(13.8)