

SNAP ON INC
Form 10-K
February 19, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 29, 2007, 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
(State of incorporation)

39-0622040
(I.R.S. Employer Identification No.)

2801 80th Street, Kenosha, Wisconsin
(Address of principal executive offices)

53143
(Zip code)

(262) 656-5200

(Registrant's telephone number, including area code)

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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 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

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of voting and non-voting common equity held by non-affiliates (excludes 177,133 shares held by directors and executive officers) computed by reference to the price (\$50.51) 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, 2007) was: \$2.9 billion

The number of shares of Common Stock (\$1.00 par value) of the registrant outstanding as of February 15, 2008, was 57,690,539 shares.

DOCUMENTS INCORPORATED BY REFERENCE

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Part III of this 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 around March 19, 2008, prepared for the Annual Meeting of Shareholders scheduled for April 24, 2008.

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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 management (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 efficiencies and savings from its Rapid Continuous Improvement (RCI) and cost reduction actions, including its ability to achieve improvements in the company s manufacturing footprint and greater efficiencies in its supply chain, and enhance machine maintenance, plant productivity and manufacturing line set-up and change-over practices, any or all of which could result in production inefficiencies, higher costs and lost revenues. These risks also include uncertainties related to Snap-on s capability to implement future strategies with respect to its existing businesses, its ability to refine its brand and franchise strategies, retain and attract franchisees, further enhance service and value to franchisees and thereby enhance their sales and profitability, introduce successful new products, successfully integrate acquisitions (including the company s November 28, 2006, acquisition of Snap-on Business Solutions (formerly ProQuest Business Solutions)), as well as its ability to withstand disruption arising from natural disasters, planned facility closures or other labor interruptions, litigation challenges and external negative factors including significant changes in the current competitive environment, inflation, interest rates and other monetary and market fluctuations; and the impact of legal proceedings, energy and raw material supply and pricing (including steel and gasoline), the amount, rate and growth of general and administrative expenses, including health care and postretirement costs, and terrorist disruptions on business. 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.

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, diagnostics, equipment, software and service solutions for professional users. Products and services include hand and power tools, tool storage, diagnostics software, information and management systems, shop equipment and other solutions for vehicle dealerships and repair centers, as well as customers in industry, government, agriculture, aviation and natural resources. 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, Australia, Canada, China, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden and the United Kingdom. Snap-on also 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.

Snap-on's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on's reportable business segments include: (i) the Commercial & Industrial Group; (ii) the Snap-on Tools Group; (iii) the Diagnostics & Information Group; and (iv) Financial Services. The Commercial & Industrial Group consists of the business operations providing tools and equipment products and equipment repair services to a broad range of industrial and commercial customers worldwide through direct, distributor and other non-franchise distribution channels. The Snap-on Tools Group consists of the business operations serving the worldwide franchise van channel. The Diagnostics & Information Group consists of the business operations providing diagnostics equipment, vehicle service information, business management systems, electronic parts catalogs, and other solutions for vehicle service to customers in the worldwide vehicle service and repair marketplace. Financial Services consists of the business operations of Snap-on Credit LLC (SOC), a consolidated, 50%-owned joint venture between Snap-on and The CIT Group, Inc. (CIT), and Snap-on's wholly owned finance subsidiaries in those international markets where Snap-on has franchise operations. See Note 18 to the Consolidated Financial Statements for information on business segments and foreign operations.

Snap-on evaluates the performance of its reportable segments based on segment revenues and operating earnings. For the Commercial & Industrial, Snap-on Tools, and Diagnostics & Information Groups, segment net sales include both external and intersegment net sales. Snap-on accounts for intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Intersegment amounts are eliminated to arrive at consolidated financial results.

On November 28, 2006, Snap-on acquired the ProQuest Business Solutions business and certain net assets (collectively, Snap-on Business Solutions or Business Solutions) from ProQuest Company for an initial purchase price of \$516.0 million of cash and the assumption of approximately \$19 million of debt. Subsequent to the November 28, 2006, closing, the cash purchase price increased by \$5.7 million to \$521.7 million, primarily reflecting a higher level of working capital received by Snap-on at closing. For segment reporting, Snap-on Business Solutions is included in the Diagnostics & Information Group.

Snap-on Business Solutions is a world leader in automotive parts and service information. Its products are aimed at assisting original equipment manufacturers (OEMs) and their dealers to enhance their service operations. Business Solutions' products include integrated software, services and systems that transform complex technical data for parts catalogs into easily accessed electronic information (electronic parts catalogs). Other products and services include warranty management systems and analytics to help dealerships manage and track the complex process of warranty claims management. Over 35,000 automotive dealerships around the world use Business Solutions' electronic parts catalogs, which are available in 26 different languages and support 15 automotive manufacturers and 31 brands. Business Solutions' products are also sold to over

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85,000 dealers in the power equipment and power sports markets. See Note 2 to the Consolidated Financial Statements for further information on the Snap-on Business Solutions acquisition.

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 Report on Form 10-K, Quarterly Reports on Form 10-Q, Definitive Proxy Statements on Schedule 14A, Current Reports on Form 8-K, and 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/investor. 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, the company'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. These documents are also available in print upon written request directed to the Corporate Secretary, 2801 80th Street, Kenosha, Wisconsin 53143.

Products and Services

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:

<i>(Amounts in millions)</i>	Net Sales		
	2007	2006	2005
Product Category:			
Tools	\$ 1,632.2	\$ 1,453.1	\$ 1,387.3
Diagnostics and repair information	647.6	499.5	405.8
Equipment	561.4	502.5	487.9
	\$ 2,841.2	\$ 2,455.1	\$ 2,281.0

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

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

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.

The *equipment* product category includes solutions for the diagnosis and service of automotive 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.

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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:

<i>Names</i>	<i>Products and Services</i>
Snap-on	Hand tools, power tools, tool storage units, diagnostics, certain equipment and related accessories, mobile tool stores, Web sites, electronic parts catalogs, warranty analytics solutions, business management services and OEM facilitation services
Acesa	Hand tools
ATI	Tools and equipment; specialty tools for the aircraft industry
BAHCO	Hand tools
Blackhawk	Collision repair equipment
Blue-Point	Hand tools, power tools, tool storage units, certain equipment and related accessories
Cartec	Safety testing, brake tester, test lane equipment, dynamo-meter, suspension tester, emission tester and other equipment
CDI	Torque measuring instruments
Fish and Hook	Hand tools
Hofmann	Wheel balancers, lifts, tire changers, wheel aligners, brake testers and test lane equipment
Irimo	Hand tools
Irazola	Hand tools
John Bean	Wheel balancers, lifts, tire changers, wheel aligners, brake testers and test lane equipment
Kansas Jack	Collision repair equipment
Lindstrom	Precision hand tools
Mitchell1	Service information, shop management systems and business services
Nexiq	Diagnostic information for fleet and heavy duty equipment
Palmera	Hand tools
Pradines	Garden tools
ShopKey	Repair and service information, shop management systems and business services
Sioux	Power tools
Sun	Diagnostic and service equipment
Williams	Hand tools

In addition to its sales of tool, diagnostic, service and equipment solutions, Snap-on also generates revenue from various financing activities that include (i) loans to franchisees; (ii) loans to the franchisees' customers; and (iii) loans to Snap-on's industrial and other customers for the purchase of tools, equipment and diagnostics products on an extended-term payment plan.

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.

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 and equipment for themselves; (ii) vehicle service and repair shop owners and managers – including independent shops, national chains and automotive dealerships – who purchase tools, equipment and diagnostics 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, to meet technicians' evolving needs. Snap-on's franchise van distribution system offers technicians the convenience of purchasing quality tools with minimal disruption of their work routine. Snap-on also provides owners and managers of shops, where technicians work, with tools, diagnostics equipment, repair and service information, including electronic parts catalogs, and shop management products. Through its Equipment Solutions (OEM facilitation) business, Snap-on provides OEMs with products and services including tools, consulting services and facilitation services. Snap-on's facilitation services include product procurement, distribution and administrative support to customers for their dealership equipment programs.

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

Industrial Sector

Snap-on markets its products globally to a broad cross-section of industrial and commercial 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 repair customers; oil and gas developers; mining operations; energy and power generation equipment fabricators; agriculture; infrastructure construction companies; and other customers that require instrumentation, service tools and/or equipment for their products.

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, particularly those in the market segments of natural resources, aerospace, government and education. Through its experienced and dispersed sales organization, industrial solutioneers strive to develop unique and highly valued productivity solutions for customers worldwide that leverage Snap-on's product, service and development capabilities.

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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: the mobile franchise van channel, company-direct sales, distributors and e-commerce. The following discussion summarizes Snap-on's general approach for each channel, and is not intended to be all-inclusive.

Franchisees

In the United States, the majority of sales to the vehicle service and repair sector are conducted through Snap-on's franchise van distribution system. Snap-on's franchisees primarily serve vehicle service 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 units, small diagnostic and shop equipment, and diagnostics 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. Most U.S. franchisees are provided a list of places of business that serves as the basis of the franchisee's sales route, although some franchisees have sales areas defined by other methods.

Snap-on also offers a trial franchise option termed the Gateway Program to potential U.S. franchisees that do not meet the franchise qualification requirements. Gateway 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 franchises. Snap-on charges nominal initial and ongoing monthly license fees. Since 1991, new U.S. franchisees, and a majority of the pre-1991 U.S. franchisees, have been enrolled as franchisees of Snap-on. At 2007 year end, 3,269 U.S. franchisees (approximately 96%) were enrolled as franchisees, or employed by franchisees, as compared with 3,308 U.S. franchisees (approximately 95%) at year-end 2006.

Snap-on has replicated its U.S. franchise van distribution model in certain other countries including Australia, Canada, Japan, the Netherlands, South Africa and the United Kingdom. In many of these markets, as in the United States, purchase decisions are generally made or influenced by professional vehicle service technicians and shop owners. Snap-on markets products in certain other countries through its subsidiary, Snap-on Tools International LLC, which sells to foreign distributors under license or contract with Snap-on.

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. Internationally, Snap-on offers financing to its franchisees and customer networks through its wholly owned finance subsidiaries. While Snap-on offers financing to qualified franchisees and their customers through SOC and its wholly owned international finance subsidiaries, the decision to finance through Snap-on or another financing entity is solely at the election of the customer.

Snap-on supports its franchisees with a field organization of regional offices, franchise performance teams, Diagnostic Sales Developers (DSDs), service 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 its wholly owned international finance subsidiaries, all of which are designed to strengthen franchisee sales. In the United States and Canada, the National Franchise Advisory Council and the Snap-on Tools Canadian Franchise Advisory Council, both of which are composed 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 the DSDs. The DSD specialists demonstrate and sell higher-price-point diagnostics and vehicle service shop management information systems. DSDs work independently and with franchisees to identify and generate sales leads among vehicle service shop owners and managers. DSDs are Snap-on employees who, beginning in 2008, 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 the DSDs are sold under the *Snap-on*, *Blue-Point* and *Sun* brand names.

Company Direct Sales

In the United States, a significant proportion of shop equipment sales under the *Sun, John Bean and Blackhawk* brands and information products under the *Mitchell* brand are made by a direct sales force that has responsibility for national accounts. As the vehicle service and repair sector consolidates (with more business conducted by national chains, automotive dealerships and franchised service centers), the company 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.