NORTHWEST PIPE CO
Form 10-Q
November 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2012

OR

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

For the transition period from to

Commission File Number: 0-27140

NORTHWEST PIPE COMPANY

(Exact name of registrant as specified in its charter)

OREGON	**93-0557988**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

5721 SE Columbia Way

Suite 200

Vancouver, Washington 98661

(Address of principal executive offices and zip code)

360-397-6250

(Registrant s telephone number including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
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

Common Stock, par value $.01 per share	**9,382,944**
(Class)	**(Shares outstanding at November 5, 2012)**

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NORTHWEST PIPE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 28	$ 182
Trade and other receivables, less allowance for doubtful accounts of $1,221 and $1,650	70,980	69,894
Costs and estimated earnings in excess of billings on uncompleted contracts	57,323	38,029
Inventories	131,679	107,169
Refundable income taxes	4,982	
Deferred income taxes	4,886	6,391
Prepaid expenses and other	1,302	5,258
Total current assets	271,180	226,923
Property and equipment, net	150,702	152,846
Goodwill	20,478	20,478
Other assets	12,680	13,126
Total assets	$ 455,040	$ 413,373
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt	5,714	5,714
Current portion of capital lease obligations	3,266	3,358
Accounts payable	24,421	20,248
Accrued liabilities	51,734	19,175
Billings in excess of costs and estimated earnings on uncompleted contracts	8,757	7,814
Total current liabilities	93,892	56,309
Note payable to financial institution	58,289	62,000
Long-term debt, less current portion	7,786	12,071
Capital lease obligations, less current portion	10,024	12,347
Deferred income taxes	19,655	20,588
Other long-term liabilities	11,300	9,791
Total liabilities	200,946	173,106
Commitments and contingencies (Note 5)		
Stockholders equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued or outstanding		
Common stock, $.01 par value, 15,000,000 shares authorized, 9,382,994 and 9,353,201 shares issued and outstanding	94	94
Additional paid-in-capital	111,372	109,348
Retained earnings	144,871	133,137
Accumulated other comprehensive loss	(2,243)	(2,312)
Total stockholders equity	254,094	240,267

Total liabilities and stockholders equity	$	455,040	$	413,373

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NORTHWEST PIPE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net sales	$ 115,099	$ 139,265	$ 388,315	$ 394,524
Cost of sales	103,499	122,751	346,638	346,571
Gross profit	11,600	16,514	41,677	47,953
Selling, general and administrative expense	7,571	6,467	21,499	19,359
Operating income	4,029	10,047	20,178	28,594
Other expense	49	950	51	1,347
Interest income	(35)	(4)	(122)	(27)
Interest expense	1,305	2,247	4,471	7,440
Income before income taxes	2,710	6,854	15,778	19,834
(Benefit from) provision for income taxes	(686)	3,570	4,044	8,641
Net income	$ 3,396	$ 3,284	$ 11,734	$ 11,193
Basic earnings per share	$ 0.36	$ 0.35	$ 1.25	$ 1.20
Diluted earnings per share	$ 0.36	$ 0.35	$ 1.24	$ 1.20
Shares used in per share calculations:				
Basic	9,383	9,346	9,375	9,326
Diluted	9,499	9,373	9,458	9,359

The accompanying notes are an integral part of these condensed consolidated financial statements

NORTHWEST PIPE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income	$ 3,396	$ 3,284	$ 11,734	$ 11,193
Other comprehensive income (loss):				
Pension liability adjustment, net of tax	59	44	254	132
Deferred gain (loss) on cash flow derivatives, net of tax	(168)	253	(185)	377
Other comprehensive income (loss)	(109)	297	69	509
Comprehensive income	$ 3,287	$ 3,581	$ 11,803	$ 11,702

The accompanying notes are an integral part of these condensed consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine months ended September 30, 2012	2011
Cash Flows From Operating Activities:		
Net income	$ 11,734	$ 11,193
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,666	10,703
Amortization of intangible assets		50
Allowance on notes receivable		4,071
Provision for doubtful accounts	(429)	(33)
Equity in earnings of unconsolidated subsidiary, net of dividends received		394
Amortization of debt issuance costs	1,119	1,532
Deferred income taxes	572	1,041
Loss on disposal of property and equipment	455	180
Gain on sale of business		(2,887)
Stock based compensation expense	2,199	519
Unrealized loss (gain) on foreign	353	(804)

currency forward contracts		
Changes in operating assets and liabilities:		
Trade and other receivables, net	(657)	(21,468)
Costs and estimated earnings in excess of billings on uncompleted contracts, net	(18,351)	(5,801)
Inventories	(24,078)	(14,549)
Refundable income taxes	(4,982)	15,099
Prepaid expenses and other assets	4,099	1,087
Accounts payable	4,562	(1,333)
Accrued and other liabilities		

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

Financial services operations of all kinds are subject to increasing regulation. In addition to potentially increasing the costs of doing business, new laws and regulations, or changes to existing laws and regulations, may affect the relationships between creditors and debtors or inhibit the rights of creditors to collect amounts owed to them. For example, if such changes impede our ability to collect amounts that are due to us or limit the rates we can charge, our profitability would suffer.

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 SOC. 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 flow.

We have increased our financial leverage, which could affect our operations and profitability.

Over the past several years, we have increased our use of borrowed funds, primarily to fund the receivables of SOC and to finance acquisitions. The company s increased leverage may affect both our availability of additional capital resources in the future, 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 flow.

Snap-on sponsors various defined benefit pension plans (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, fixed income securities, real estate and other real assets, other alternative investments and cash. Required funding for the company s defined benefit pension plans is determined in accordance with guidelines set forth in the federal Employee Retirement Income Security Act (ERISA). 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. Declining market interest rates will increase our pension plan obligations. While our plan assets are broadly diversified, there are inherent market risks associated with investments. Our pension plan assets, in the aggregate, incurred a substantial loss in 2008 as a result of market conditions; if adverse market conditions occur, our plan assets could incur additional 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 (v) the effects of actuarial gains and losses. 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 financing alternatives to end-user customers and franchisees. Since the July 16, 2009 termination of our financial services operating agreement with CIT, Snap-on is providing the resources for the majority of this financing at SOC. As a result, we are more dependent upon our ability to obtain capital resources or other financing on terms that we believe are attractive to support SOC s on-book receivables. The lack of our ability to obtain capital resources or financing, 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 2011, intended to improve customer service and to 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 (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 at SOC.

We believe that by executing on these focus areas, along with a continued 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, 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 and 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 flow 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 flow.

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 effects of brand rationalization, dealership closures and/or other difficulties in the automotive industry could impact our business and operating results.

Some of our business units have substantial interrelationships with the automotive industry. Weakness in the automotive industry has, in recent years, resulted in the bankruptcy of certain automobile manufacturers, as well as suppliers and dealers who are dependent upon them, discontinuance of auto brands and other significant changes in the industry. The ongoing effects of these changes cannot yet be fully determined; however, they have resulted in a reduction in the number of automobile dealerships. Additionally, weakness of companies in the automotive industry could affect their levels of purchases from us and the collectability of amounts owed to us. Even though we believe that our products and services enhance productivity, a reduction in the number of automotive manufacturers and/or dealers, or their capital expenditures, could substantially affect our sales. Any of those factors could negatively affect our business, financial condition, results of operations and cash flow.

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 its 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.

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

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.

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

There has recently been an increase in legislative and regulatory activity, particularly in the United States, that could significantly impact our business and the economy as a whole. For example, the Affordable Care Act (Act), which was enacted in March 2010 and will be phased in over the next several years, significantly affects the provision of both health care services and benefits in the United States; this Act 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. Also, the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 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, disclosures and general securities law compliance.

These developments, and other potential future legislation and regulations, 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.

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

From time to time we are subject to legal disputes that are being litigated and/or settled in the ordinary course of business. As described more fully below in Part I, Item 3: Legal Proceedings, Snap-on has a dispute pending in arbitration with CIT in which both parties make claims relating to matters that occurred during the course of their financial services joint venture. That dispute, and any other dispute or future lawsuit, 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 us. 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.

Information technology infrastructure is 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 this infrastructure, the resulting disruption could impede our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on business in the normal course. Any such events could cause us to lose customers or revenue and could require us to incur significant expense to remediate.

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 existing 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 flow.

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

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 adverse changes in business climate, adverse actions by regulators, unanticipated competition, loss of key customers, including large customers associated with the automotive industry, 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 flow.

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 those other currencies affect the U.S. dollar value of those items as reflected in Snap-on s 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 41% of our revenues in 2010 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. 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, transportation delays or interruptions and difficulties in enforcement of contract and intellectual property rights. Should the economic environment in our non-U.S. markets deteriorate from current levels, including as a result of the effects of potential impairment write-downs of goodwill and/or other intangible assets related to these businesses, our results of operations and financial position could be materially impacted.

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.

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

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 flow.

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 flow.

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

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 flow. These risks include:

- Loss of the acquired businesses customers;
- An 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, 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 3.5 million square feet, of which 77% is owned, including its corporate and general office facility located in Kenosha, Wisconsin. Snap-on s facilities outside the United States occupy approximately 3.9 million square feet, of which approximately 72% 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.

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The following table provides information about each of Snap-on s principal manufacturing locations and distribution centers (exceeding 50,000 square feet) as of 2010 year end:

Location	Type of Property	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	Leased	RS&I
Columbus, Georgia	Distribution	Owned	C&I
Crystal Lake, Illinois	Distribution	Owned and Leased	SOT
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
Minsk, Belarus	Manufacturing	Owned	C&I
Santa Barbara D oeste, Brazil	Manufacturing and distribution	Owned	RS&I
Mississauga, Canada	Manufacturing	Leased	RS&I
Newmarket, Canada	Manufacturing	Owned	SOT
Kunshan, China	Manufacturing	Owned	C&I
Xiaoshan, China	Manufacturing	Owned	C&I
Bramley, England	Manufacturing	Leased	C&I
Kettering, England	Distribution	Owned	SOT, C&I
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

On January 24, 2011, Snap-on announced the expected mid-2011 closure of its Newmarket, Canada, tool storage manufacturing facility; Snap-on is consolidating its North American tool storage manufacturing and distribution operations into its existing tool storage facility in Algona, Iowa. Snap-on expects the Newmarket facility will be available for sale following its closure in 2011.

Item 3: Legal Proceedings

See Note 15 to the Consolidated Financial Statements for information on legal proceedings.

Snap-on filed a notice of arbitration with the American Arbitration Association on January 8, 2010, concerning a dispute with CIT relating to various underpayments made during the course of their financial services joint venture, in which Snap-on has alleged damages of approximately $115 million. As a result of the dispute, Snap-on has withheld certain amounts (totaling $107.8 million as of 2010 year end) from payments made to CIT relating to SOC s ongoing business activities. CIT filed its response denying Snap-on s claim and asserting certain claims against Snap-on for other matters relating to the joint venture on January 29, 2010. CIT s claims allege damages in excess of $110 million, the majority of which relates to returning the $107.8 million withheld by Snap-on. The $107.8 million retained by Snap-on is included in other accrued liabilities on Snap-on s January 1, 2011 consolidated balance sheet. Discovery in the CIT matter is ongoing, with arbitration scheduled for the second quarter of 2011. At this time, no determination can be made as to the likely outcome of this dispute.

Snap-on is involved in various other 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 other legal matters, management believes that the results of these other legal matters will not have a material impact on Snap-on s consolidated financial position, results of operations or cash flows.

PART II

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

Snap-on had 58,181,545 shares of common stock outstanding as of 2010 year end. Snap-on s stock is listed on the New York Stock Exchange under the ticker symbol SNA. At February 11, 2011, there were 6,417 registered holders of Snap-on common stock.

Snap-on s common stock high and low prices, as of the close of trading, for the last two years by quarter were as follows:

Common Stock High/Low Prices

	2010		2009	
Quarter	High	Low	High	Low
First	$ 44.90	$ 40.12	$ 41.07	$ 20.66
Second	49.54	40.36	34.70	26.79
Third	46.92	39.88	38.63	26.50
Fourth	57.39	46.30	43.57	34.05

Snap-on has paid consecutive quarterly cash dividends, without interruption or reduction, since 1939. On November 4, 2010, the company announced that its Board of Directors (Board) increased the quarterly cash dividend from $0.30 per share to $0.32 per share. Quarterly dividends declared 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). Quarterly dividends in 2009 and 2008 were $0.30 per share ($1.20 per share for each year). Cash dividends paid in 2010, 2009 and 2008 totaled $71.3 million, $69.0 million and $69.7 million, respectively. Snap-on s 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 2010, all of which were purchased pursuant to the Board s authorizations that the company has publicly announced. There were no other stock repurchases by the company in fiscal 2010. Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and dealer 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	Number of Shares Purchased	Average Price Paid per Share	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*
10/03/10 to 10/30/10		N/A		$155.2 million
10/31/10 to 11/27/10		N/A		$158.7 million
11/28/10 to 01/01/11	152,000	$56.99	152,000	$159.4 million
Total/Average	152,000	$56.99	152,000	N/A

* Subject to further adjustment pursuant to the 1996 Authorization described below, as of January 1, 2011, the approximate value of shares that may yet be purchased pursuant to the three outstanding Board authorizations discussed below is $159.4 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 $51.00, $52.86 and $56.58 per share of common stock as of the end of the fiscal 2010 months ended October 30, 2010, November 27, 2010, and January 1, 2011, 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, 2005, 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, 2005	$ 100.00	$ 100.00	$ 100.00
December 31, 2006	130.15	118.80	115.80
December 31, 2007	134.76	139.56	122.16
December 31, 2008	112.19	90.45	76.96
December 31, 2009	124.98	115.00	97.33
December 31, 2010	171.92	154.37	111.99

(1) Assumes $100 was invested on December 31, 2005, and that dividends were reinvested quarterly.

(2) The company s fiscal year ends on the Saturday closest to December 31 of each year; the fiscal year end is assumed to be December 31 for ease of calculation.

(3) The Peer Group consists of: Stanley Black & Decker, Inc., Cooper Industries plc., Danaher Corporation, Emerson Electric Co., Fortune Brands, Inc., Genuine Parts Company, Newell Rubbermaid Inc., Pentair, Inc., SPX Corporation, and W.W. Grainger, Inc. The Peer Group has been adjusted to reflect the 2010 merger of The Black & Decker Corporation and The Stanley Works.

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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)*	2010	2009	2008	2007	2006
Results of Operations					
Net sales	$ 2,619.2	$ 2,362.5	$ 2,853.3	$ 2,841.2	$ 2,455.1
Gross profit	1,211.1	1,057.6	1,284.6	1,266.6	1,079.8
Operating expenses	894.1	824.4	933.1	964.2	930.0
Operating earnings before financial services	317.0	233.2	351.5	302.4	149.8
Financial services revenue	62.3	58.3	81.4	63.0	49.0
Financial services expenses	47.9	40.8	44.1	40.6	36.0
Operating earnings	331.4	250.7	388.8	324.8	162.8
Interest expense	54.8	47.7	33.8	46.1	20.6
Earnings before income taxes and equity earnings	277.4	205.3	357.8	284.2	147.5
Income tax expense	87.6	62.7	117.8	92.5	45.9
Earnings before equity earnings	189.8	142.6	240.0	191.7	101.6
Equity earnings, net of tax	3.2	1.1	3.6	2.4	
Net earnings from continuing operations	193.0	143.7	243.6	194.1	101.6
Income (loss) from discontinued operations, net of tax				(8.0)	2.2
Net earnings	193.0	143.7	243.6	186.1	103.8
Net earnings attributable to noncontrolling interests	(6.5)	(9.5)	(6.9)	(4.9)	(3.7)
Net earnings attributable to Snap-on Inc.	186.5	134.2	236.7	181.2	100.1
Financial Position					
Cash and cash equivalents	$ 572.2	$ 699.4	$ 115.8	$ 93.0	$ 63.4
Trade and other accounts receivable net	443.3	414.4	462.2	512.6	494.1
Finance receivables net	215.3	122.3	37.1	42.5	45.1
Contract receivables net	45.6	32.9	22.8	31.8	20.0
Inventories net	329.4	274.7	359.2	322.4	323.0
Current assets	1,765.5	1,676.1	1,140.7	1,187.4	1,113.2
Property and equipment net	344.0	347.8	327.8	304.8	297.1
Total assets	3,729.4	3,447.4	2,710.3	2,765.1	2,654.5
Notes payable and current maturities of long-term debt	216.0	164.7	12.0	15.9	43.6
Accounts payable	146.1	119.8	126.0	171.6	178.8
Current liabilities	881.1	739.9	547.5	639.2	682.0
Long-term debt	954.8	902.1	503.4	502.0	505.6

Total debt	1,170.8	1,066.8	515.4	517.9	549.2
Total shareholders equity attributable to Snap-on Inc.	1,388.5	1,290.0	1,186.5	1,280.1	1,076.3
Working capital	884.4	936.2	593.2	548.2	431.2
Common Share Summary					
Average shares outstanding diluted	58.4	57.9	58.1	58.6	59.2
Earnings per share (EPS), continuing operations:					
Basic	$ 3.22	$ 2.33	$ 4.12	$ 3.27	$ 1.68
Diluted	3.19	2.32	4.07	3.23	1.65
Net EPS attributable to Snap-on Incorporated:					
Basic	3.22	2.33	4.12	3.13	1.72
Diluted	3.19	2.32	4.07	3.09	1.69
Cash dividends paid per share	1.22	1.20	1.20	1.11	1.08
Shareholders equity per basic share	23.94	22.36	20.63	22.11	18.46
Fiscal year-end per share price	56.58	42.26	41.10	48.13	47.64

Snap-on terminated its financial services joint venture operating agreement with CIT on July 16, 2009, and subsequently purchased CIT s 50%-ownership interest in SOC for $8.1 million. Since July 16, 2009, 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.

Results of operations for all years presented prior to 2008 have been restated to reflect the 2007 sale of the Sun Electric Systems business based in the Netherlands as discontinued operations. Snap-on recorded an $8.0 million net loss from the sale of the Sun Electric Systems business in 2007.

Operating expenses and operating earnings in 2006 included a $38.0 million pretax charge ($23.4 million after tax, or $0.40 per diluted share) to settle certain legal matters related to certain then current and former franchisees. Results in 2006 also included the impact of the company s acquisition of Snap-on Business Solutions for the approximate five-week period from the November 28, 2006 acquisition date to year end.

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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 2010 or 2010 refer to the fiscal year ended January 1, 2011; references to fiscal 2009 or 2009 refer to the fiscal year ended January 2, 2010; and references to fiscal 2008 or 2008 refer to the fiscal year ended January 3, 2009. References to 2010, 2009 and 2008 year end refer to January 1, 2011, January 2, 2010, and January 3, 2009, respectively.

We believe our 2010 operating performance evidences stabilization in the overall business environment, significant progress on our strategic priorities and continued benefits from our Snap-on Value Creation Processes. Considerable progress was made as we continued investing in our strategic growth initiatives aimed at strengthening our business models, pursuing geographic and customer diversification and expanding our presence in emerging markets. In 2010, we maintained a balance between a disciplined operational approach and continued focus on 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.

Our global financial services operations serve a significant strategic role in providing financing options for our franchisees customers, our franchisees and customers in other parts of our business. Fiscal 2010 marked the first full year since our U.S. financial services operation, Snap-on Credit LLC (SOC), transitioned from a financial services joint venture with CIT Group Inc. (CIT) to a wholly-owned subsidiary. Following the July 16, 2009 termination of the financial services operating agreement with CIT, we have been steadily growing our on-book finance portfolio and providing financing for the majority of new loans originated by SOC. Going forward, we expect that our financial services businesses, including both SOC and our wholly-owned international finance subsidiaries, will be meaningful contributors to our operating earnings. We expect that operating earnings from financial services, which is before interest expense, will continue to improve as the on-book finance portfolio grows.

We believe that continued advancement of our strategic initiatives will enable us to capitalize on our defined runways for growth and be decisive in creating long-term value for our shareholders. Specific opportunities for growth in 2011 include the areas of vehicle repair, critical industries and emerging markets. In vehicle repair, we intend to enhance our mobile tool distribution network by reaching out to more vehicle repair technicians. Similarly, we seek to further penetrate another key customer group within vehicle repair shop owners and managers through direct and distributor channels within our Repair Systems & Information Group. We also expect to continue rolling the *Snap-on* brand out of the garage, providing professional technicians in critical industries, including power generation, oil and gas, aerospace, military, mining, natural resources, alternative energy and education, with a broad range of productivity solutions suited to their unique needs. We also intend to continue investing in emerging markets, including the further expansion of our manufacturing capacity and product offerings in China, India and Eastern Europe. Global market conditions in 2011, including the depth and breadth of the economic recovery, may impact the level and timing of resources deployed in pursuit of these initiatives.

Net sales in 2010 of $2,619.2 million increased $256.7 million, or 10.9%, from 2009 levels, with favorable foreign currency translation contributing $14.9 million of the increase. Operating earnings of $331.4 million in 2010 increased $80.7 million from 2009 levels primarily due to higher sales, contributions from ongoing efficiency and productivity (collectively Rapid Continuous Improvement or RCI) initiatives and benefits from restructuring actions. Net earnings in 2010 of $186.5 million, or $3.19 per diluted share, increased 39.0% from the $134.2 million, or $2.32 per diluted share, earned in 2009.

In the second quarter of 2010, as previously disclosed, we realigned our management organization and, as a result, our reportable business segments. This organizational change reflects our efforts to better support the product and service needs of our primary customer segments, which include: (i) commercial and industrial customers, including professionals in critical industries and emerging markets; (ii) professional technicians who purchase products through our 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. In addition, our Financial Services customer segment offers financing options that include (i) loans to franchisees customers and our industrial and other customers for the purchase or lease of tools, equipment and diagnostics products on an extended term payment plan; and (ii) business loans and vehicle leases to franchisees.

The primary organizational changes in 2010 included the realignment of our equipment products and equipment repair services operations from the Commercial & Industrial Group to the newly created Repair Systems & Information Group in order to better serve customers in the worldwide vehicle service and repair marketplace, including owners and managers of independent and OEM dealership service and repair shops. In addition to equipment products and equipment repair services, the Repair Systems & Information Group includes the business operations of our former Diagnostics & Information Group, consisting of those operations providing diagnostics, vehicle service information, business management systems, electronic parts catalogs and other solutions for vehicle service to customers in the worldwide vehicle and repair marketplace. The organizational changes also included the realignment of our sales operations in Japan from the Snap-on Tools Group to the Commercial & Industrial Group to assist in further penetrating the customer base, particularly industrial buyers, in that region. We also reallocated certain costs between the operating units as a result of these organizational changes, reflecting value-added activities and contributions related to the particular customer base being served. Prior year segment financial data was restated to reflect these reportable business segment realignments.

As a result of the organizational changes in 2010, our 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 our worldwide mobile tool distribution channel. The Repair Systems & Information Group consists of business operations serving other professional vehicle repair customers, primarily owners and managers of independent repair shops and OEM dealership service and repair shops, through direct and distributor channels. Financial Services consists of the business operations of our wholly-owned finance subsidiaries.

In the **Commercial & Industrial Group**, segment net sales of $1,048.2 million in 2010 increased $150.6 million, or 16.8%, from 2009 levels. Excluding $3.0 million of favorable foreign currency translation, organic (excluding foreign currency translation effects) sales in 2010 increased $147.6 million, or 16.4%, year over year, primarily reflecting higher sales to customers in critical industries and emerging markets. Sales in our European-based hand tools business also improved in 2010 from depressed 2009 levels. Operating earnings of $116.9 million in 2010 increased $68.7 million from 2009 levels primarily due to higher sales and favorable manufacturing utilization, lower restructuring costs and $19.7 million of savings from ongoing RCI and restructuring initiatives. The Commercial & Industrial Group incurred $5.2 million of restructuring costs in 2010 primarily to improve the segment s cost structure in Europe.

The Commercial & Industrial Group intends to build on the following strategic priorities in 2011:

- Continuing to invest in emerging market growth initiatives, including China, India and Eastern Europe;
- Increasing market share in key industrial market segments by reaching new customers, expanding our business with existing customers, and continually expanding value-added product content;
- Continuing to invest in innovation that delivers productivity-enhancing solutions that utilize the latest technology; and
- Continuing to rationalize the operating footprint and reduce structural costs.

In the **Snap-on Tools Group**, segment net sales of $1,039.9 million in 2010 increased $99.8 million, or 10.6%, from 2009 levels; excluding $14.0 million of favorable foreign currency translation, organic sales in 2010 increased $85.8 million, or 9.0%, year over year primarily due to higher sales in the company s U.S. franchise operations. Operating earnings in 2010 of $114.0 million increased $5.8 million from 2009 levels as earnings contributions from higher sales, favorable foreign currency effects and savings from ongoing RCI and restructuring initiatives were partially offset by higher year-over-year last in, first out (LIFO) related inventory valuation expense and higher restructuring costs. The Snap-on Tools Group incurred $5.3 million of restructuring costs in 2010 primarily for the mid-2011 consolidation of its North American tool storage manufacturing and distribution operations into its existing tool storage facility in Algona, Iowa.

In 2010, the Snap-on Tools Group continued to make progress on its fundamental, strategic initiatives to strengthen the group and enhance franchisee profitability and satisfaction. In 2011, the Snap-on Tools Group intends to continue building on the progress made in 2010, with specific initiatives focused on the following:

- Continuing to improve franchisee profitability and satisfaction;
- Developing new programs to expand market coverage;
- 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.

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By executing in these areas, we believe that we, as well as our franchisees, will continue to serve more customers better and more profitably.

In the **Repair Systems & Information Group**, segment net sales of $847.2 million in 2010 increased $68.4 million, or 8.8%, from 2009 levels; excluding $2.5 million of unfavorable foreign currency translation, organic sales in 2010 increased $70.9 million, or 9.1%. The year-over-year sales increase primarily reflects higher equipment and diagnostics sales to owners and managers of independent repair shops and increased activity with automotive OEM dealerships. Sales in 2010 benefited from the further development and launch of new diagnostics and information products, and the continued expansion of product functionality, content and product integration. These sales increases were partially offset by anticipated lower year-over-year sales of electronic parts catalogs to OEMs and their franchised dealer networks primarily due to the consolidation of North American automotive dealerships in 2009 and 2010. Operating earnings in 2010 of $164.4 million increased $42.3 million, or 34.6%, from 2009 levels, primarily due to higher sales, $11.4 million of savings from ongoing RCI and other cost reduction initiatives, including savings from cost containment actions, and $4.4 million of lower restructuring costs.

The Repair Systems & Information Group intends to focus on the following strategic priorities in 2011:

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

Financial Services revenue was $62.3 million in 2010 and $58.3 million in 2009; in 2010, originations of $538.2 million increased $40.1 million, or 8.1%, from 2009 levels. Following the July 16, 2009 termination of the financial services operating agreement with CIT, we have been steadily growing our on-book finance portfolio and providing financing for the majority of new loans originated by SOC. SOC records the interest yield on the new on-book finance portfolio over the life of the contracts as financial services revenue; prior to July 16, 2009, SOC sold substantially all new contract originations to CIT and recorded gains on the sale of the contracts as financial services revenue. At the time of the July 16, 2009 transition, SOC had minimal on-book, interest-earning assets to offset its infrastructure operating costs. By mid-2010, SOC s on-book finance portfolio was generating positive operating earnings. For full year 2010, operating earnings from financial services were $14.4 million, as compared to $17.5 million last year. We expect that operating earnings from financial services, which is before interest expense, will continue to improve as our on-book finance portfolio grows.

Financial Services intends to focus on the following strategic priorities in 2011:

Delivering financial products and services that attract and sustain profitable franchisees;
Delivering financial products and services that foster lifetime customer loyalty;
Delivering high quality in all of our financial products and processes through the use of RCI initiatives;
Delivering additional financial products and services in the United Kingdom and Australia; and
Improving overall portfolio performance.

Cash Flows

Net cash provided by operating activities was $140.4 million in 2010 as compared to $347.1 million in 2009. The lower net cash provided by operating activities in 2010 was primarily due to net changes in operating assets and liabilities as a result of higher sales and increased customer demand, including $116.6 million of higher trade, contract and other receivables and $55.2 million of increased inventories. The decrease in net cash provided by operating activities in 2010 also included a fourth quarter 2010 discretionary cash contribution of $48.0 million to the company s domestic pension plans.

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. Capital expenditures in 2010 of $51.1 million included continued spending to support the company s strategic growth initiatives, including the expansion of manufacturing capabilities in lower-cost regions and emerging growth markets. Capital expenditures in 2010 also included higher levels of efficiency and cost-reduction capital investments, including the installation of new production and machine tooling to enhance manufacturing and distribution operations, and increased spending to enhance the company s corporate headquarters and research and development facilities in Kenosha, Wisconsin.

Net cash provided by financing activities totaled $34.8 million in 2010. In December 2010, Snap-on issued $250 million of 4.25% unsecured long-term notes at a discount; Snap-on is using 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 may include working capital, capital expenditures, repayment of all or a portion of the company s $200 million 6.25% unsecured notes maturing on August 15, 2011, the financing of finance and contract receivables related to SOC, and possible acquisitions. In January 2010, Snap-on repaid $150 million of floating rate debt upon its maturity with available cash. Cash proceeds received from stock purchase and option plans totaled $23.7 million in 2010; dividends paid to shareholders totaled $71.3 million in 2010.

Results of Operations

In the second quarter of 2010, as previously disclosed, Snap-on realigned its management organization and, as a result, its reportable business segments. This organizational change reflects the company s efforts to better support the product and service needs of the company s primary customer segments. As a result of this realignment, 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. Prior year segment financial data was restated to reflect these reportable business segment realignments. See Note 17 to the Consolidated Financial Statements and Segment Results in this Management s Discussion and Analysis for further information on the company s reportable business segments.

2010 vs. 2009

Results of operations for 2010 and 2009 are as follows:

(Amounts in millions)	2010		2009		Change	
Net sales	$ 2,619.2	100.0%	$ 2,362.5	100.0%	$ 256.7	10.9%
Cost of goods sold	(1,408.1)	-53.8%	(1,304.9)	-55.2%	(103.2)	-7.9%
Gross profit	1,211.1	46.2%	1,057.6	44.8%	153.5	14.5%
Operating expenses	(894.1)	-34.1%	(824.4)	-34.9%	(69.7)	-8.5%
Operating earnings before financial services	317.0	12.1%	233.2	9.9%	83.8	35.9%
Financial services revenue	62.3	100.0%	58.3	100.0%	4.0	6.9%
Financial services expenses	(47.9)	-76.9%	(40.8)	-70.0%	(7.1)	-17.4%
Operating earnings from financial services	14.4	23.1%	17.5	30.0%	(3.1)	-17.7%

Operating earnings		331.4	12.4%		250.7	10.4%	80.7	32.2%
Interest expense		(54.8)	-2.0%		(47.7)	-2.0%	(7.1)	-14.9%
Other income (expense) net		0.8			2.3	0.1%	(1.5)	-65.2%
Earnings before income taxes and equity earnings		277.4	10.4%		205.3	8.5%	72.1	35.1%
Income tax expense		(87.6)	-3.3%		(62.7)	-2.6%	(24.9)	-39.7%
Earnings before equity earnings		189.8	7.1%		142.6	5.9%	47.2	33.1%
Equity earnings, net of tax		3.2	0.1%		1.1		2.1	NM
Net earnings		193.0	7.2%		143.7	5.9%	49.3	34.3%
Net earnings attributable to noncontrolling interests		(6.5)	-0.2%		(9.5)	-0.4%	3.0	31.6%
Net earnings attributable to Snap-on Inc.	$	186.5	7.0%	$	134.2	5.5%	$ 52.3	39.0%

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 in 2010 of $2,619.2 million were up $256.7 million, or 10.9%, from 2009 levels; excluding $14.9 million of favorable foreign currency translation, organic sales increased $241.8 million, or 10.2%, from 2009 levels. Snap-on has significant international operations and is subject to certain risks inherent with foreign operations, including foreign currency translation fluctuations.

Gross profit in 2010 was $1,211.1 million as compared to $1,057.6 million in 2009. The $153.5 million, or 14.5%, gross profit increase is primarily due to higher sales, $21.6 million of savings from ongoing RCI initiatives, including benefits from restructuring and cost containment actions, $17.5 million of favorable foreign currency effects and $4.7 million of lower restructuring costs. The year-over-year gross profit comparison also benefited from favorable manufacturing utilization as a result of increased production levels; in 2009, the company incurred costs to carry excess manufacturing capacity, primarily in Europe, as a result of lower demand and inventory reduction efforts. These gross profit increases were partially offset by $10.9 million of lower year-over-year LIFO-related inventory valuation benefits ($1.0 million of LIFO-related expense in 2010 and $9.9 million of LIFO-related benefits in 2009). The LIFO-related inventory benefits in 2009 resulted from inventory reductions, including as a result of increased liquidations and disposals of slow-moving and excess inventories, as the company adjusted its production and inventory levels in response to weakened consumer and business demand during the continued global economic downturn. As a result of these factors, gross margin of 46.2% in 2010 increased 140 basis points (100 basis points equals 1.0 percent) from 44.8% in 2009.

Operating expenses in 2010 were $894.1 million as compared to $824.4 million in 2009. In addition to higher volume-related and other expenses, the $69.7 million increase in year-over-year operating expenses includes $19.3 million of higher performance-based incentive compensation expense, $16.3 million of increased pension expense, largely due to the amortization of investment losses incurred in 2008 related to the company s domestic pension plan assets, $7.5 million of higher stock-based, including mark-to-market, expense and $3.9 million of unfavorable foreign currency effects. These increases were partially offset by $12.6 million of benefits from ongoing RCI and other cost reduction activities, including benefits from restructuring and cost containment actions, $7.5 million of lower bad debt expense and $2.9 million of lower restructuring costs. As a percentage of sales, operating expenses in 2010 of 34.1% compared to 34.9% in 2009.

Operating earnings from Financial Services was $14.4 million on revenue of $62.3 million in 2010, as compared with $17.5 million of operating earnings on revenue of $58.3 million in 2009; the $3.1 million decrease in year-over-year operating earnings from Financial Services included $0.7 million of favorable foreign currency translation effects. Prior to the July 16, 2009 termination of the financial services operating agreement with CIT, SOC sold substantially all new contract originations to CIT and recorded gains on the sale of the contracts as financial services revenue. Since July 16, 2009, Snap-on has been providing financing for the majority of new loans originated by SOC and SOC is recording the interest yield on the new on-book finance portfolio over the life of the contracts as financial services revenue. See Notes 1, 2 and 3 to the Consolidated Financial Statements for further information on SOC.

Consolidated operating earnings in 2010 of $331.4 million increased $80.7 million, or 32.2%, from $250.7 million in 2009, including $14.3 million of favorable foreign currency effects. As a percentage of revenues (net sales plus financial services revenue), operating earnings in 2010 improved 200 basis points to 12.4% as compared to 10.4% in 2009.

Interest expense of $54.8 million in 2010 increased $7.1 million from 2009 levels primarily due to higher average debt levels and 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 income of $0.8 million in 2010 as compared to income of $2.3 million in 2009. Other income (expense) net primarily includes interest income as well as 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 32.3% in 2010 and 32.0% in 2009. The 2010 effective income tax rate reflects the favorable settlement of certain tax audits. The effective income tax rate in 2009 reflects the favorable resolution of certain tax matters and the impact of increased earnings attributable to noncontrolling interests that are not taxable to Snap-on. See Note 8 to the Consolidated Financial Statements for further information on income taxes.

Snap-on acquired the remaining 40% interest in Wanda Snap-on (Zhejiang) Co., Ltd. (Wanda Snap-on), the company s tool manufacturing operation in Xiaoshan, China, on April 6, 2010. Snap-on acquired the initial 60% interest in Wanda Snap-on on March 5, 2008. On July 1, 2010, Wanda Snap-on was renamed Snap-on Asia Manufacturing (Zhejiang) Co., Ltd. (Xiaoshan). For segment reporting purposes, the results of operations and assets of Xiaoshan, which have been included in Snap-on s consolidated financial statements since the March 5, 2008 acquisition date, are included in the Commercial & Industrial Group. The Xiaoshan acquisition is part of the company s ongoing strategic initiatives to further expand its manufacturing presence in emerging growth markets and lower-cost regions. Pro forma financial information is not presented as the net effects of the Xiaoshan acquisition were not material to Snap-on s results of operations or financial position.

Net earnings attributable to Snap-on were $186.5 million, or $3.19 per diluted share, in 2010 as compared with $134.2 million, or $2.32 per diluted share, in 2009.

Exit and Disposal Activities

Snap-on recorded costs of $14.2 million for exit and disposal activities in 2010 as compared to $22.0 million of such costs in 2009. 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. In the second quarter of 2010, Snap-on realigned its management organization and, as a result, its reportable business segments. As a result of the organizational changes discussed in Note 17 to the accompanying Consolidated Financial Statements, Snap-on s reportable business segments are: (i) the Commercial & Industrial Group; (ii) the Snap-on Tools Group; (iii) the Repair Systems & Information Group; and (iv) Financial Services. The Commercial & Industrial Group consists of business operations serving a broad range of industrial and commercial customers worldwide, primarily through direct and distributor channels. The Snap-on Tools Group consists of business operations primarily serving automotive service technicians through the company s worldwide mobile tool distribution channel. The Repair Systems & Information Group consists of business operations serving other professional vehicle repair customers, primarily owners and managers of independent repair shops and OEM dealership service and repair shops, through direct and distributor channels. Financial Services consists of the business operations of Snap-on s wholly-owned finance subsidiaries.

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

Commercial & Industrial Group

(Amounts in millions)	2010		2009		Change	
External net sales	$ 891.3	85.0%	$ 789.9	88.0%	$ 101.4	12.8%
Intersegment net sales	156.9	15.0%	107.7	12.0%	49.2	45.7%
Segment net sales	1,048.2	100.0%	897.6	100.0%	150.6	16.8%
Cost of goods sold	(662.7)	-63.2%	(592.9)	-66.1%	(69.8)	-11.8%
Gross profit	385.5	36.8%	304.7	33.9%	80.8	26.5%
Operating expenses	(268.6)	-25.6%	(256.5)	-28.5%	(12.1)	-4.7%
Segment operating earnings	$ 116.9	11.2%	$ 48.2	5.4%	$ 68.7	142.5%

Segment net sales of $1,048.2 million in 2010 increased $150.6 million, or 16.8%, from 2009 levels. Excluding $3.0 million of favorable foreign currency translation, organic sales increased $147.6 million, or 16.4%, reflecting higher sales to customers in critical industries (including natural resources, power generation, oil and gas, aerospace and military) and emerging growth markets, increased sales in the segment s European-based hand tools business, and higher sales of power and specialty tools.

Segment gross profit of $385.5 million in 2010 was up $80.8 million, or 26.5%, from 2009 levels. The $80.8 million gross profit increase is primarily due to higher sales and favorable manufacturing utilization as a result of increased production levels; in 2009, the segment incurred costs to carry excess manufacturing capacity, primarily in Europe, as a result of lower production and inventory reduction efforts. The year-over-year gross profit comparison also benefited from $15.3 million of savings from ongoing RCI and other cost reduction activities, including benefits from restructuring and cost containment actions, $6.3 million of lower restructuring costs and $2.8 million of favorable foreign currency effects. As a result of these factors, gross margin of 36.8% in 2010 improved 290 basis points from 33.9% last year.

Operating expenses of $268.6 million in 2010 increased $12.1 million from 2009 levels primarily due to higher volume-related and other expenses and $1.5 million of unfavorable foreign currency effects. These operating expense increases were partially offset by $4.4 million of savings from ongoing restructuring and other cost reduction and cost containment initiatives, and $1.0 million of lower restructuring costs. As a percentage of sales, operating expenses in 2010 improved 290 basis points to 25.6% from 28.5% last year.

As a result of these factors, segment operating earnings of $116.9 million in 2010 increased $68.7 million from 2009 levels, including $1.3 million from favorable foreign currency effects. As a percentage of segment net sales, operating earnings for the Commercial & Industrial Group increased 580 basis points from 5.4% in 2009 to 11.2% in 2010.

Snap-on Tools Group

(Amounts in millions)	2010		2009		Change	
Segment net sales	$ 1,039.9	100.0%	$ 940.1	100.0%	$ 99.8	10.6%
Cost of goods sold	(604.3)	-58.1%	(532.7)	-56.7%	(71.6)	-13.4%
Gross profit	435.6	41.9%	407.4	43.3%	28.2	6.9%
Operating expenses	(321.6)	-30.9%	(299.2)	-31.8%	(22.4)	-7.5%
Segment operating earnings	$ 114.0	11.0%	$ 108.2	11.5%	$ 5.8	5.4%

Segment net sales of $1,039.9 million in 2010 increased $99.8 million, or 10.6%, from 2009 levels. Excluding $14.0 million of favorable foreign currency translation, organic sales increased $85.8 million, or 9.0%, year over year, including a 10.4% sales increase in the United States and a 5.3% increase in the company s international franchise operations.

Segment gross profit of $435.6 million in 2010 increased $28.2 million, or 6.9%, from 2009 levels. The $28.2 million gross profit increase is primarily due to higher sales and favorable manufacturing utilization as a result of increased production levels, $15.0 million of favorable foreign currency effects and $1.7 million of savings from ongoing restructuring initiatives. These increases were partially offset by $10.9 million of lower year-over-year LIFO-related inventory valuation benefits ($1.0 million of LIFO-related expense in 2010 and $9.9 million of LIFO-related benefits in 2009) and $4.7 million of higher restructuring costs. The LIFO-related inventory benefits in 2009 resulted from inventory reductions, including as a result of increased liquidations and disposals of slow-moving and excess inventories, as the segment adjusted its production and inventory levels in response to weakened consumer and business demand during the continued global economic downturn. The $4.7 million of higher restructuring costs primarily reflects initial costs for the expected mid-2011 closure of Snap-on s Newmarket, Canada, tool storage manufacturing facility. Snap-on expects to phase out production at the Newmarket facility and consolidate its North American tool storage manufacturing and distribution operations into its existing tool storage facility in Algona, Iowa. The year-over-year gross profit comparison was also impacted by $2.4 million of lower warranty expense in 2009 due to favorable historic warranty trend rates. As a percentage of sales, gross margin was 41.9% in 2010 as compared to 43.3% last year.

Operating expenses of $321.6 million in 2010 increased $22.4 million from 2009 levels primarily due to higher volume-related and other expenses, including higher costs as a result of increased participation at the annual Snap-on Franchisee Conference and higher costs associated with the development of a new and expanded product catalog that was deferred from 2009 into 2010. The year-over-year operating expense increase also includes $3.3 million of unfavorable foreign currency effects and $1.3 million of higher stock-based expense related to the franchisee stock purchase plan. These operating expense increases were partially offset by $1.4 million of savings from ongoing cost reduction and cost containment initiatives, $1.4 million of lower bad debt expense and $0.6 million of lower restructuring costs. As a percentage of sales, operating expenses in 2010 improved 90 basis points to 30.9% from 31.8% last year.

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

As a result of these factors, operating earnings for the Snap-on Tools Group of $114.0 million in 2010 increased $5.8 million from 2009 levels, including $11.7 million from favorable foreign currency effects. As a percentage of segment net sales, operating earnings for the Snap-on Tools Group of 11.0% in 2010 declined 50 basis points from 11.5% in 2009.

Repair Systems & Information Group

(Amounts in millions)	2010		2009		Change	
External net sales	$ 688.0	81.2%	$ 632.5	81.2%	$ 55.5	8.8%
Intersegment net sales	159.2	18.8%	146.3	18.8%	12.9	8.8%
Segment net sales	847.2	100.0%	778.8	100.0%	68.4	8.8%
Cost of goods sold	(457.2)	-54.0%	(433.3)	-55.6%	(23.9)	-5.5%
Gross profit	390.0	46.0%	345.5	44.4%	44.5	12.9%
Operating expenses	(225.6)	-26.6%	(223.4)	-28.7%	(2.2)	-1.0%
Segment operating earnings	$ 164.4	19.4%	$ 122.1	15.7%	$ 42.3	34.6%

Segment net sales of $847.2 million in 2010 increased $68.4 million, or 8.8%, from 2009 levels. Excluding $2.5 million of unfavorable foreign currency translation, organic sales increased $70.9 million, or 9.1%, year over year primarily due to higher worldwide sales of equipment, increased essential tool and facilitation program activity with automotive OEM dealerships, and higher sales of diagnostics and Mitchell1 information products. These sales increases were partially offset by anticipated lower year-over-year sales of electronic parts catalogs to OEMs and their franchised dealer networks primarily due to the consolidation of North American automotive dealerships in 2009 and 2010.

Segment gross profit of $390.0 million in 2010 increased $44.5 million, or 12.9%, from 2009 levels. As a percentage of sales, gross margin improved 160 basis points from 44.4% in 2009 to 46.0% in 2010. The $44.5 million gross profit increase primarily reflects higher sales, $4.6 million of benefits from ongoing RCI, restructuring and other cost reduction and cost containment initiatives, $3.6 million of savings from material cost reductions and $3.1 million of lower restructuring costs. The gross profit comparison also benefited from favorable year-over-year manufacturing utilization as a result of increased production levels.

Operating expenses of $225.6 million in 2010 increased $2.2 million from 2009 levels as higher volume-related, product development and other expenses were partially offset by $6.8 million of savings from ongoing RCI, restructuring and other cost reduction and cost containment initiatives, $1.3 million of lower restructuring costs and $0.9 million of favorable foreign currency effects. The operating expense comparison also benefited from $5.4 million of lower year-over-year bad debt expense; in 2009, the segment incurred higher bad debt expense primarily related to increased credit exposure at North American automotive dealerships. As a percentage of sales, operating expenses in 2010 improved 210 basis points to 26.6% from 28.7% last year.

As a result of these factors, segment operating earnings of $164.4 million in 2010 increased $42.3 million, or 34.6%, from 2009 levels, including $0.6 million from favorable foreign currency effects. As a percentage of segment net sales, operating earnings for the Repair Systems & Information Group increased 370 basis points from 15.7% in 2009 to 19.4% in 2010.

Financial Services

(Amounts in millions)	2010		2009		Change	
Financial services revenue	$ 62.3	100.0%	$ 58.3	100.0%	$ 4.0	6.9%
Financial services expenses	(47.9)	-76.9%	(40.8)	-70.0%	(7.1)	-17.4%
Segment operating earnings	$ 14.4	23.1%	$ 17.5	30.0%	$ (3.1)	-17.7%

Segment operating earnings were $14.4 million on $62.3 million of revenue in 2010, as compared with $17.5 million of operating earnings on $58.3 million of revenue in 2009. Originations of $538.2 million in 2010 increased $40.1 million, or 8.1%, from 2009 levels. Since the July 16, 2009 termination of the financial services operating agreement with CIT, Snap-on has been providing financing for the majority of new loans originated by SOC and SOC is recording the interest yield on the new on-book receivables over the life of the contracts as financial services revenue. Prior to July 16, 2009, SOC sold substantially all new contract originations to CIT and recorded gains on the sale of the contracts as financial services revenue. The $3.1 million decrease in year-over-year operating earnings from Financial Services included $0.7 million of favorable foreign currency effects. See Notes 1, 2 and 3 to the Consolidated Financial Statements for further information on SOC.

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Corporate

Snap-on s general corporate expenses of $78.3 million in 2010 increased $33.0 million from $45.3 million in 2009 primarily due to $17.3 million of increased performance-based incentive compensation expense, $16.3 million of higher pension expense, largely due to the amortization of investment losses incurred in 2008 related to the company s domestic pension plan assets, and $6.2 million of higher stock-based, including mark-to-market, expense. These year-over-year expense increases were partially offset by $8.0 million of savings primarily from ongoing cost containment and other actions.

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

Supplemental Consolidating Data Supplemental Statements of Earnings information for 2010 and 2009 is as follows:

	Operations*		Financial Services	
(Amounts in millions)	2010	2009	2010	2009
Net sales	$ 2,619.2	$ 2,362.5	$	$
Cost of goods sold	(1,408.1)	(1,304.9)		
Gross profit	1,211.1	1,057.6		
Operating expenses	(894.1)	(824.4)		
Operating earnings before financial services	317.0	233.2		
Financial services revenue			62.3	58.3
Financial services expenses			(47.9)	(40.8)
Operating earnings from financial services			14.4	17.5
Operating earnings	317.0	233.2	14.4	17.5
Interest expense	(54.4)	(47.7)	(0.4)	
Intersegment interest income (expense) net	23.9	3.0	(23.9)	(3.0)
Other income (expense) net	0.9	3.0	(0.1)	(0.7)
Earnings (loss) before income taxes and equity earnings	287.4	191.5	(10.0)	13.8
Income tax (expense) benefit	(92.2)	(60.1)	4.6	(2.6)
Earnings (loss) before equity earnings	195.2	131.4	(5.4)	11.2
Financial services net earnings (loss) attributable to Snap-on Incorporated	(5.4)	6.9		
Equity earnings, net of tax	3.2	1.1		
Net earnings (loss)	193.0	139.4	(5.4)	11.2
Net earnings attributable to noncontrolling interests	(6.5)	(5.2)		(4.3)
Net earnings (loss) attributable to Snap-on Incorporated	$ 186.5	$ 134.2	$ (5.4)	$ 6.9

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

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Supplemental Consolidating Data   Supplemental Balance Sheet information as of 2010 and 2009 year end is as follows:

	Operations*		Financial Services	
(Amounts in millions)	2010	2009	2010	2009
ASSETS				
Current assets				
Cash and cash equivalents	$ 462.6	$ 577.1	$ 109.6	$ 122.3
Intersegment receivables	6.7	4.8		0.1
Trade and other accounts receivable net	434.5	411.5	8.8	2.9
Finance receivables net			215.3	122.3
Contract receivables net	7.9	7.4	37.7	25.5
Inventories net	329.4	274.7		
Deferred income tax assets	82.4	69.3	4.6	0.2
Prepaid expenses and other assets	74.1	60.1	0.7	2.8
Total current assets	1,397.6	1,404.9	376.7	276.1
Property and equipment net	343.0	346.4	1.0	1.4
Investment in Financial Services	134.4	205.6		
Deferred income tax assets	75.7	73.6	15.8	14.6
Long-term finance receivables net			345.7	177.9
Long-term contract receivables net	8.4	10.9	110.9	59.8
Goodwill	798.4	814.3		
Other intangibles net	192.8	206.2		
Other assets	72.8	65.2	0.5	1.0
Total assets	$ 3,023.1	$ 3,127.1	$ 850.6	$ 530.8

* 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 Balance Sheet Information (continued):

(Amounts in millions)	Operations* 2010	Operations* 2009	Financial Services 2010	Financial Services 2009
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities				
Notes payable and current maturities of long-term debt	$ 216.0	$ 164.7	$	$
Accounts payable	129.6	119.3	16.5	0.5
Intersegment payables		4.2	6.7	0.7
Accrued benefits	45.0	48.4		0.3
Accrued compensation	83.4	61.6	3.3	3.2
Franchisee deposits	40.4	40.5		
Other accrued liabilities	218.1	215.7	132.0	85.7
Total current liabilities	732.5	654.4	158.5	90.4
Long-term debt and intersegment long-term debt	418.8	674.8	536.0	227.3
Deferred income tax liabilities	94.3	97.8	0.1	
Retiree health care benefits	59.6	60.7		
Pension liabilities	246.1	255.9		
Other long-term liabilities	67.4	77.9	21.6	7.5
Total liabilities	1,618.7	1,821.5	716.2	325.2
Total shareholders equity attributable to Snap-on Inc.	1,388.5	1,290.0	134.4	205.6
Noncontrolling interests	15.9	15.6		
Total shareholders equity	1,404.4	1,305.6	134.4	205.6
Total liabilities and shareholders equity	$ 3,023.1	$ 3,127.1	$ 850.6	$ 530.8

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

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Fourth Quarter

Results of operations for the fourth quarters of 2010 and 2009 are as follows:

	Fourth Quarter					
(Amounts in millions)	2010		2009		Change	
Net sales	$ 696.9	100.0%	$ 618.1	100.0%	$ 78.8	12.7%
Cost of goods sold	(378.4)	-54.3%	(333.7)	-54.0%	(44.7)	-13.4%
Gross profit	318.5	45.7%	284.4	46.0%	34.1	12.0%
Operating expenses	(231.0)	-33.1%	(213.2)	-34.5%	(17.8)	-8.3%
Operating earnings before financial services	87.5	12.6%	71.2	11.5%	16.3	22.9%
Financial services revenue	21.5	100.0%	6.7	100.0%	14.8	NM
Financial services expenses	(12.1)	-56.3%	(10.5)	-156.7%	(1.6)	-15.2%
Operating earnings (loss) from financial services	9.4	43.7%	(3.8)	-56.7%	13.2	NM
Operating earnings	96.9	13.5%	67.4	10.8%	29.5	43.8%
Interest expense	(14.1)	-2.0%	(14.7)	-2.4%	0.6	4.1%
Other income (expense) net	0.6	0.1%	1.3	0.2%	(0.7)	-53.8%
Earnings before income taxes and equity earnings	83.4	11.6%	54.0	8.6%	29.4	54.4%
Income tax expense	(24.5)	-3.4%	(16.5)	-2.6%	(8.0)	-48.5%
Earnings before equity earnings	58.9	8.2%	37.5	6.0%	21.4	57.1%
Equity earnings, net of tax	0.9	0.1%	0.6	0.1%	0.3	50.0%
Net earnings	59.8	8.3%	38.1	6.1%	21.7	57.0%
Net earnings attributable to noncontrolling interests	(1.9)	-0.2%	(1.5)	-0.2%	(0.4)	-26.7%
Net earnings attributable to Snap-on Inc.	$ 57.9	8.1%	$ 36.6	5.9%	$ 21.3	58.2%

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 in the fourth quarter of 2010 of $696.9 million were up $78.8 million, or 12.7%, from 2009 levels; excluding $4.5 million of unfavorable foreign currency translation, organic sales in the quarter increased $83.3 million, or 13.6%, from 2009 levels. Snap-on has significant international operations and is subject to certain risks inherent with foreign operations, including foreign currency translation fluctuations.

Gross profit in the fourth quarter of 2010 was $318.5 million as compared to $284.4 million in 2009. The $34.1 million gross profit increase is primarily due to higher sales, favorable manufacturing utilization as a result of increased production levels and $3.6 million of savings from ongoing RCI and other cost reduction activities, including benefits from restructuring actions. These gross profit increases were partially offset by $6.5 million of lower year-over-year LIFO-related inventory valuation benefits ($0.2 million of LIFO-related benefits in 2010 and $6.7 million of LIFO-related benefits in 2009) and $1.4 million of unfavorable foreign currency effects. The higher LIFO-related inventory benefits in 2009 resulted from inventory reductions, including as a result of increased liquidations and disposals of slow-moving and excess inventories, as the company adjusted its production and inventory levels in response to weakened consumer and business demand during the continued global economic downturn. In the fourth quarter of 2010, restructuring costs included in gross profit totaled $4.4 million as compared to $5.2 million last year. As a percentage of sales, gross margin of 45.7% in the fourth quarter of 2010 compared to 46.0% in 2009.

Operating expenses in the fourth quarter of 2010 were $231.0 million as compared to $213.2 million in 2009. The $17.8 million increase in year-over-year operating expenses is primarily due to higher volume-related and other expenses, $4.1 million of higher pension expense, largely due to the amortization of investment losses incurred in 2008 related to the company s domestic pension plan assets, $3.8 million of increased performance-based incentive compensation expense and $1.7 million of higher stock-based (mark-to-market) expense. These operating expense increases were partially offset by $4.9 million of lower bad debt expense, $2.5 million of benefits from ongoing RCI and restructuring initiatives and $1.6 million of favorable foreign currency effects. In the fourth quarter, restructuring costs included in operating expenses totaled $1.4 million as compared to $1.5 million last year. As a percentage of sales, operating expenses in the fourth quarter of 2010 improved 140 basis points to 33.1% as compared to 34.5% in 2009.

Operating earnings from Financial Services was $9.4 million on revenue of $21.5 million in the fourth quarter of 2010, as compared with an operating loss of $3.8 million on revenue of $6.7 million in the fourth quarter of 2009. The year-over-year increase in both revenue and operating earnings primarily reflects the growth in SOC s on-book finance portfolio following the July 16, 2009 termination of the financial services operating agreement with CIT. See Notes 1, 2 and 3 to the Consolidated Financial Statements for further information on SOC.

Consolidated operating earnings in the fourth quarter of 2010 of $96.9 million increased $29.5 million, or 43.8%, from $67.4 million in the fourth quarter of 2009, including $13.2 million of higher year-over-year operating earnings from financial services and $0.3 million from favorable foreign currency effects. As a percentage of revenues (net sales plus financial services revenue), operating earnings in the fourth quarter of 2010 improved 270 basis points to 13.5% as compared to 10.8% last year.

Interest expense of $14.1 million in the fourth quarter of 2010 decreased $0.6 million from the comparable prior-year period primarily due to lower average debt levels, partially offset by higher 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 income of $0.6 million in the fourth quarter of 2010 as compared to income of $1.3 million in the fourth quarter of 2009. 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 30.1% in the fourth quarter of 2010 and 31.4% in the fourth quarter of 2009. See Note 8 to the Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on in the fourth quarter of 2010 were $57.9 million, or $0.99 per diluted share, as compared with $36.6 million, or $0.63 per diluted share, in the fourth quarter of 2009.

Commercial & Industrial Group

Fourth Quarter

(Amounts in millions)	2010		2009		Change	
External net sales	$ 238.1	84.6%	$ 215.4	87.6%	$ 22.7	10.5%
Intersegment net sales	43.4	15.4%	30.5	12.4%	12.9	42.3%
Segment net sales	281.5	100.0%	245.9	100.0%	35.6	14.5%
Cost of goods sold	(173.5)	-61.6%	(161.8)	-65.8%	(11.7)	-7.2%
Gross profit	108.0	38.4%	84.1	34.2%	23.9	28.4%
Operating expenses	(72.6)	-25.8%	(67.3)	-27.4%	(5.3)	-7.9%
Segment operating earnings	$ 35.4	12.6%	$ 16.8	6.8%	$ 18.6	110.7%

Segment net sales of $281.5 million in the fourth quarter of 2010 increased $35.6 million, or 14.5%, from 2009 levels, reflecting continued higher sales across all operating units, including in those businesses serving critical industries and emerging markets. Excluding $1.9 million of unfavorable foreign currency translation, organic sales increased 15.4%.

Segment gross profit of $108.0 million in the fourth quarter of 2010 was up $23.9 million, or 28.4%, from 2009 levels. The $23.9 million gross profit increase is primarily due to higher sales, $4.8 million of lower restructuring costs and $3.1 million of savings from ongoing RCI and restructuring initiatives. The year-over-year gross profit comparison also benefited from favorable manufacturing utilization as a result of increased production levels; in the fourth quarter of 2009, the segment incurred costs to carry excess manufacturing capacity, primarily in Europe, as a result of lower production and inventory reduction efforts. As a result of these factors, gross margin of 38.4% for the fourth quarter of 2010 increased 420 basis points from 34.2% in the fourth quarter of 2009.

Operating expenses of $72.6 million in the fourth quarter of 2010 were up $5.3 million from 2009 levels primarily due to higher volume-related and other expenses, partially offset by $0.6 million of favorable foreign currency effects. As a percentage of sales, operating expenses in the fourth quarter of 2010 improved 160 basis points to 25.8% from 27.4% last year.

As a result of these factors, segment operating earnings of $35.4 million in the fourth quarter of 2010 increased $18.6 million from 2009 levels, including $0.4 million from favorable foreign currency effects. As a percentage of segment net sales, operating earnings for the Commercial & Industrial Group increased 580 basis points from 6.8% in the fourth quarter of 2009 to 12.6% in the fourth quarter of 2010.

Snap-on Tools Group

	Fourth Quarter					
(Amounts in millions)	2010		2009		Change	
Segment net sales	$ 268.2	100.0%	$ 237.0	100.0%	$ 31.2	13.2%
Cost of goods sold	(161.0)	-60.0%	(129.6)	-54.7%	(31.4)	-24.2%
Gross profit	107.2	40.0%	107.4	45.3%	(0.2)	-0.2%
Operating expenses	(81.4)	-30.4%	(74.3)	-31.3%	(7.1)	-9.6%
Segment operating earnings	$ 25.8	9.6%	$ 33.1	14.0%	$ (7.3)	-22.1%

Segment net sales of $268.2 million in the fourth quarter of 2010 increased $31.2 million, or 13.2%, from 2009 levels. Excluding $0.7 million of favorable foreign currency translation, organic sales increased $30.5 million, or 12.8%, year over year, including a 15.2% sales increase in the United States and a 6.7% sales increase in the company s international franchise operations.

Segment gross profit of $107.2 million in the fourth quarter of 2010 compared to $107.4 million last year. Gross profit contributions from higher sales in 2010 were more than offset by $6.5 million of lower year-over-year LIFO-related inventory valuation benefits ($0.2 million of LIFO-related benefits in 2010 and $6.7 million of LIFO-related benefits in 2009) and $4.6 million of higher restructuring costs. The higher LIFO-related inventory benefits in 2009 resulted from inventory reductions, including as a result of increased liquidations and disposals of slow-moving and excess inventories, as the segment adjusted its production and inventory levels in response to weakened consumer and business demand during the continued global economic downturn. The $4.6 million of higher restructuring costs primarily reflects initial costs for the expected mid-2011 closure of Snap-on s Newmarket, Canada, tool storage manufacturing facility. Snap-on expects to phase out production at the Newmarket facility and consolidate its North American tool storage manufacturing and distribution operations into its existing tool storage facility in Algona, Iowa. As a percentage of sales, gross margin of 40.0% in the fourth quarter of 2010 compared to 45.3% in the fourth quarter of 2009.

Operating expenses of $81.4 million in the fourth quarter of 2010 increased $7.1 million from 2009 levels primarily due to higher volume-related and other expenses, partially offset by $0.7 million of lower bad debt expense and $0.1 million of lower restructuring costs. As a percentage of sales, operating expenses in the fourth quarter of 2010 improved 90 basis points to 30.4% from 31.3% last year.

As a result of these factors, operating earnings for the Snap-on Tools Group of $25.8 million in the fourth quarter of 2010 declined $7.3 million from 2009 levels, including $0.2 million of unfavorable foreign currency effects. As a percentage of segment net sales, operating earnings for the Snap-on Tools Group of 9.6% in the fourth quarter of 2010 declined from 14.0% in the fourth quarter of 2009.

Repair Systems & Information Group

	Fourth Quarter					
(Amounts in millions)	2010		2009		Change	
External net sales	$ 190.6	82.2%	$ 165.7	82.1%	$ 24.9	15.0%
Intersegment net sales	41.2	17.8%	36.1	17.9%	5.1	14.1%
Segment net sales	231.8	100.0%	201.8	100.0%	30.0	14.9%
Cost of goods sold	(128.5)	-55.4%	(108.9)	-54.0%	(19.6)	-18.0%
Gross profit	103.3	44.6%	92.9	46.0%	10.4	11.2%
Operating expenses	(57.6)	-24.9%	(57.9)	-28.7%	0.3	0.5%
Segment operating earnings	$ 45.7	19.7%	$ 35.0	17.3%	$ 10.7	30.6%

Segment net sales of $231.8 million in the fourth quarter of 2010 increased $30.0 million, or 14.9%, from 2009 levels. Excluding $3.3 million of unfavorable foreign currency translation, organic sales increased $33.3 million, or 16.8%, year over year, reflecting increased sales to repair shop owners and managers, including higher sales of undercar equipment, diagnostics and Mitchell1 information products, as well as increased facilitation program activity with automotive OEM dealerships.

Segment gross profit of $103.3 million in the fourth quarter of 2010 increased $10.4 million, or 11.2%, from 2009 levels. As a percentage of sales, gross margin decreased 140 basis points from 46.0% in the fourth quarter of 2009 to 44.6% in the fourth quarter of 2010 primarily due to a shift in sales mix that included higher sales of lower-margin essential tool and facilitation program sales to OEM dealerships. The $10.4 million gross profit increase primarily reflects higher sales, contributions from favorable manufacturing utilization as a result of increased production levels, $0.6 million of lower restructuring costs and $0.5 million of benefits from ongoing RCI and restructuring initiatives. These year-over-year gross profit increases were partially offset by $1.1 million of unfavorable foreign currency effects.

Operating expenses of $57.6 million in the fourth quarter of 2010 decreased $0.3 million from 2009 levels as higher volume-related, product development and other expenses were more than offset by $2.2 million of savings from ongoing RCI and restructuring initiatives and $1.1 million of favorable foreign currency effects. The operating expense comparison also benefited from $3.6 million of lower year-over-year bad debt expense; in 2009, the segment incurred higher bad debt expense primarily related to increased credit exposure at North American automotive dealerships. As a percentage of sales, operating expenses in the fourth quarter of 2010 improved 380 basis points to 24.9% from 28.7% last year.

As a result of these factors, segment operating earnings of $45.7 million in the fourth quarter of 2010 increased $10.7 million from 2009 levels. As a percentage of segment net sales, operating earnings for the Repair Systems & Information Group increased 240 basis points from 17.3% in the fourth quarter of 2009 to 19.7% in the fourth quarter of 2010.

Financial Services

(Amounts in millions)	Fourth Quarter					
	2010		2009		Change	
Financial services revenue	$ 21.5	100.0%	$ 6.7	100.0%	$ 14.8	NM
Financial services expenses	(12.1)	-56.3%	(10.5)	-156.7%	(1.6)	-15.2%
Segment operating earnings (loss)	$ 9.4	43.7%	$ (3.8)	-56.7%	$ 13.2	NM

NM: Not meaningful

Segment operating earnings were $9.4 million on $21.5 million of revenue in the fourth quarter of 2010, as compared with an operating loss of $3.8 million on $6.7 million of revenue in the fourth quarter of 2009. The year-over-year increase in both revenue and operating earnings primarily reflects the growth in SOC s on-book finance portfolio following the July 16, 2009 termination of the financial services operating agreement with CIT. Originations of $141.9 million in the fourth quarter of 2010 increased 7.5% from comparable prior-year levels. The $13.2 million increase in year-over-year operating earnings from Financial Services included $0.1 million of favorable foreign currency effects. See Notes 1, 2 and 3 to the Consolidated Financial Statements for further information on SOC.

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Corporate

Snap-on s general corporate expenses of $19.4 million in the fourth quarter of 2010 increased $5.7 million from $13.7 million in the fourth quarter of 2009 primarily due to $4.5 million of increased performance-based incentive compensation expense, $4.1 million of higher pension expense, largely due to the amortization of investment losses incurred in 2008 related to the company s domestic pension plan assets, and $1.7 million of higher stock-based, including mark-to-market, expense. These year-over-year expense increases were partially offset by $4.6 million of savings primarily from ongoing cost containment and other actions.

2009 vs. 2008

Results of operations for 2009 and 2008 are as follows:

(Amounts in millions)	2009		2008		Change	
Net sales	$ 2,362.5	100.0%	$ 2,853.3	100.0%	$ (490.8)	-17.2%
Cost of goods sold	(1,304.9)	-55.2%	(1,568.7)	-55.0%	263.8	16.8%
Gross profit	1,057.6	44.8%	1,284.6	45.0%	(227.0)	-17.7%
Operating expenses	(824.4)	-34.9%	(933.1)	-32.7%	108.7	11.6%
Operating earnings before financial services	233.2	9.9%	351.5	12.3%	(118.3)	-33.7%
Financial services revenue	58.3	100.0%	81.4	100.0%	(23.1)	-28.4%
Financial services expenses	(40.8)	-70.0%	(44.1)	-54.2%	3.3	7.5%
Operating earnings from financial services	17.5	30.0%	37.3	45.8%	(19.8)	-53.1%
Operating earnings	250.7	10.4%	388.8	13.2%	(138.1)	-35.5%
Interest expense	(47.7)	-2.0%	(33.8)	-1.1%	(13.9)	-41.1%
Other income (expense) net	2.3	0.1%	2.8	0.1%	(0.5)	-17.9%
Earnings before income taxes and equity earnings	205.3	8.5%	357.8	12.2%	(152.5)	-42.6%
Income tax expense	(62.7)	-2.6%	(117.8)	-4.0%	55.1	46.8%
Earnings before equity earnings	142.6	5.9%	240.0	8.2%	(97.4)	-40.6%
Equity earnings, net of tax	1.1		3.6	0.1%	(2.5)	-69.4%
Net earnings	143.7	5.9%	243.6	8.3%	(99.9)	-41.0%
Net earnings attributable to noncontrolling interests	(9.5)	-0.4%	(6.9)	-0.2%	(2.6)	-37.7%

Net earnings attributable to Snap-on Inc.	$	134.2	5.5%	$	236.7	8.1%	$	(102.5)	-43.3%

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.

Snap-on s 2009 fiscal year contained 52 weeks of operating results; Snap-on s 2008 fiscal year contained 53 weeks of operating results. The impact of the additional week in 2008, which occurred in the fourth quarter, was not material to Snap-on s 2008 net sales or operating earnings.

Net sales in 2009 of $2,362.5 million were down $490.8 million, or 17.2%, from 2008 levels. Excluding $98.5 million of unfavorable foreign currency translation, organic sales in 2009 declined 14.2% from 2008 levels. Snap-on has significant international operations and is subject to certain risks inherent with foreign operations, including foreign currency translation fluctuations. The year-over-year sales comparison was significantly impacted by weakened consumer and business demand as customers curtailed spending in response to the global recession that continued throughout 2009.

Gross profit in 2009 was $1,057.6 million as compared to $1,284.6 million in 2008. The $227.0 million decline in year-over-year gross profit is primarily due to the lower sales and costs to carry manufacturing capacity, mainly in Europe, in light of lower demand and inventory reduction efforts. The decline in 2009 gross profit also included $54.0 million of unfavorable foreign currency effects, $13.4 million of higher restructuring costs, primarily to improve the company s cost structure in Europe, and $5.7 million of higher software development costs. These declines were partially offset by $54.6 million of savings from ongoing RCI and other cost reduction initiatives, including benefits from restructuring, material cost reductions, and savings from cost containment actions in light of the weakened economy. Year-over-year LIFO-related inventory valuation benefits as a result of inventory reductions in 2009 were largely offset by the effects of increased liquidations and disposals of slow-moving and excess inventories. As a result of these factors, gross profit margin of 44.8% in 2009 declined 20 basis points from 45.0% in 2008.

Operating expenses in 2009 were $824.4 million as compared to $933.1 million in 2008. The $108.7 million reduction in year-over-year operating expenses primarily resulted from $66.0 million of benefits from ongoing RCI, restructuring and other cost reduction initiatives, including savings from cost containment actions in light of the weakened economy, $28.2 million of favorable foreign currency effects, $20.1 million of lower performance-based incentive compensation expense and $6.3 million of lower restructuring costs. These declines were partially offset by $11.5 million of higher bad debt expense, including as a result of increased credit exposure at North American automotive dealerships. In addition, operating expenses in 2009 included $12.0 million of increased pension expense primarily due to the amortization of investment losses incurred in 2008 related to the company s domestic pension plan assets. As a percentage of net sales, operating expenses were 34.9% in 2009 as compared to 32.7% in 2008.

Operating earnings from financial services was $17.5 million on $58.3 million of revenue in 2009, as compared with operating earnings of $37.3 million on $81.4 million of revenue in 2008. On July 16, 2009, Snap-on terminated its financial services operating agreement with CIT and subsequently purchased CIT s 50%-ownership interest in SOC. Since July 16, 2009, Snap-on has been providing financing for the majority of new loans originated by SOC and SOC is recording the interest yield on the new on-book receivables over the life of the contracts as financial services revenue. Previously, SOC sold new contract originations to CIT and recorded gains on the sale of the contracts as financial services revenue. The change from recognizing gains on contract sales to CIT, to recognizing the interest yield on the on-book receivables, was a primary factor in the year-over-year declines in both revenues and operating earnings. See Notes 1, 2 and 3 to the Consolidated Financial Statements for further information.

Consolidated operating earnings in 2009 of $250.7 million declined $138.1 million, or 35.5%, from $388.8 million in 2008. In addition to the impact from lower sales, the year-over-year decrease in operating earnings was primarily due to $27.2 million of unfavorable foreign currency effects, $19.8 million of lower operating earnings from financial services and $7.3 million of higher restructuring costs. As a percentage of revenues (net sales plus financial services revenue), operating earnings in 2009 of 10.4% compared to 13.2% in 2008.

Interest expense of $47.7 million in 2009 increased $13.9 million from the prior year primarily due to higher debt levels as a result of the issuance of $550 million of fixed rate, long-term notes in 2009. 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 $2.3 million in 2009 as compared to income of $2.8 million in 2008. Other income (expense) net primarily included 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 32.0% in 2009 and 33.6% in 2008. The lower effective tax rate in 2009 is primarily due to higher realization of tax credits and a reduction of tax contingency reserves, partially offset by an unfavorable mix of foreign earnings. See Note 8 to the Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on in 2009 were $134.2 million, or $2.32 per diluted share, as compared to net earnings attributable to Snap-on of $236.7 million, or $4.07 per diluted share, in 2008.

Exit and Disposal Activities

Snap-on recorded costs of $22.0 million for exit and disposal activities in 2009 as compared to $14.7 million of such costs in 2008. See Note 7 to the Consolidated Financial Statements for information on Snap-on s exit and disposal activities.

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Segment Results

The following discussion reflects the 2010 realignment of the company s segments, as discussed above.

Commercial & Industrial Group

(Amounts in millions)	2009		2008		Change	
External net sales	$ 789.9	88.0%	$ 1,019.3	88.2%	$ (229.4)	-22.5%
Intersegment net sales	107.7	12.0%	136.6	11.8%	(28.9)	-21.2%
Segment net sales	897.6	100.0%	1,155.9	100.0%	(258.3)	-22.3%
Cost of goods sold	(592.9)	-66.1%	(694.2)	-60.1%	101.3	14.6%
Gross profit	304.7	33.9%	461.7	39.9%	(157.0)	-34.0%
Operating expenses	(256.5)	-28.5%	(310.8)	-26.8%	54.3	17.5%
Segment operating earnings	$ 48.2	5.4%	$ 150.9	13.1%	$ (102.7)	-68.1%

Segment net sales of $897.6 million in 2009 declined $258.3 million, or 22.3%, from 2008 levels. Excluding $43.2 million of unfavorable foreign currency translation, organic sales declined 19.3% year over year primarily as a result of the economic downturn that particularly affected sales volumes in various European markets in 2009.

Segment gross profit of $304.7 million in 2009 was down $157.0 million, or 34.0%, from 2008 levels. The $157.0 million decline in year-over-year gross profit is primarily due to the lower sales and costs to carry manufacturing capacity, mainly in Europe, in light of lower demand and inventory reduction efforts. The decline in 2009 gross profit also included $13.6 million of unfavorable foreign currency effects, $11.7 million of higher restructuring costs primarily to improve the segment s cost structure in Europe, and $4.1 million of inflationary cost increases. These declines were partially offset by benefits of $20.7 million from ongoing RCI, restructuring and other cost reduction and cost containment initiatives, including $5.2 million of material cost reductions.

Operating expenses of $256.5 million in 2009 were down $54.3 million from 2008 levels primarily due to $18.1 million of savings from ongoing RCI, restructuring and other cost reduction and cost containment initiatives, lower volume-related and other expenses, and $12.8 million of favorable foreign currency effects. As a percentage of sales, operating expenses in 2009 of 28.5% compared to 26.8% in 2008.

As a result of these factors, segment operating earnings for the Commercial & Industrial Group of $48.2 million in 2009 declined $102.7 million from 2008 levels and, as a percentage of segment net sales, declined from 13.1% in 2008 to 5.4% in 2009. The $102.7 million decrease in year-over-year operating earnings included $0.8 million of unfavorable foreign currency effects.

Snap-on Tools Group

(Amounts in millions)	2009		2008		Change	
Segment net sales	$ 940.1	100.0%	$ 1,046.2	100.0%	$ (106.1)	-10.1%
Cost of goods sold	(532.7)	-56.7%	(607.8)	-58.1%	75.1	12.4%
Gross profit	407.4	43.3%	438.4	41.9%	(31.0)	-7.1%
Operating expenses	(299.2)	-31.8%	(323.4)	-30.9%	24.2	7.5%
Segment operating earnings	$ 108.2	11.5%	$ 115.0	11.0%	$ (6.8)	-5.9%

Segment net sales of $940.1 million in 2009 declined $106.1 million, or 10.1%, from 2008 levels primarily due to the continued challenging sales environment in 2009. Excluding $29.6 million of unfavorable foreign currency translation, organic sales declined 7.5% year over year. U.S. sales in the Snap-on Tools Group declined 9.5% year over year, while organic sales in the company s international franchise operations were down slightly. As of 2009 year end, van count in the United States was up slightly compared to both October 3, 2009, and year-end 2008 levels.

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

Segment gross profit of $407.4 million in 2009 decreased $31.0 million, or 7.1%, from 2008 levels. As a percentage of sales, gross profit margin in 2009 improved to 43.3% as compared to 41.9% last year. In addition to the lower sales and costs to carry manufacturing capacity in light of lower demand and inventory reduction efforts, gross profit in 2009 was also affected by $28.2 million of unfavorable foreign currency effects. These declines in gross profit were partially offset by $16.5 million of savings from material and other cost reduction initiatives, including savings from cost containment actions, and $1.1 million of lower restructuring costs. Year-over-year LIFO-related inventory valuation benefits of $14.6 million ($9.9 million of LIFO-related benefits in 2009 and $4.7 million of LIFO-related expense in 2008) as a result of inventory reductions in 2009 were largely offset by the effects of increased liquidations and disposals of slow-moving and excess inventories.

Operating expenses of $299.2 million in 2009 declined $24.2 million from prior-year levels primarily due to $27.0 million of benefits from RCI and other cost reduction and cost containment initiatives, lower volume-related and other expenses, $7.0 million of favorable foreign currency effects and $4.6 million of lower restructuring costs. As a percentage of sales, operating expenses in 2009 of 31.8% compared to 30.9% in 2008.

As a result of these factors, segment operating earnings for the Snap-on Tools Group of $108.2 million in 2009 decreased $6.8 million from 2008 levels; however, as a percentage of segment net sales, operating earnings in 2009 improved from 11.0% in 2008 to 11.5% in 2009. The $6.8 million decrease in year-over-year operating earnings included $21.2 million of unfavorable foreign currency effects.

Repair Systems & Information Group

(Amounts in millions)	2009		2008		Change	
External net sales	$ 632.5	81.2%	$ 787.8	83.2%	$ (155.3)	-19.7%
Intersegment net sales	146.3	18.8%	159.5	16.8%	(13.2)	-8.3%
Segment net sales	778.8	100.0%	947.3	100.0%	(168.5)	-17.8%
Cost of goods sold	(433.3)	-55.6%	(562.8)	-59.4%	129.5	23.0%
Gross profit	345.5	44.4%	384.5	40.6%	(39.0)	-10.1%
Operating expenses	(223.4)	-28.7%	(252.5)	-26.7%	29.1	11.5%
Segment operating earnings	$ 122.1	15.7%	$ 132.0	13.9%	$ (9.9)	-7.5%

Segment net sales of $778.8 million in 2009 declined $168.5 million, or 17.8%, from 2008 levels. Excluding $30.0 million of unfavorable foreign currency translation, organic sales declined 15.1% year over year primarily due to lower essential tool and facilitation program sales to OEM dealerships and lower equipment sales.

Segment gross profit of $345.5 million in 2009 decreased $39.0 million, or 10.1%, from 2008 levels; however, as a percentage of segment net sales, gross profit margin in 2009 improved to 44.4% as compared to 40.6% in 2008. The $39.0 million decrease in year-over-year gross profit primarily reflects the impacts of lower sales and costs to carry manufacturing capacity, mainly in Europe, in light of lower demand and inventory reduction efforts, $12.2 million of unfavorable foreign currency effects and $6.2 million of higher software development costs. These declines in gross profit were partially offset by contributions from a more favorable sales mix of higher-margin diagnostics and software products, and $17.4 million of savings from ongoing RCI and other cost reduction initiatives, including savings from cost containment actions.

Operating expenses of $223.4 million were down $29.1 million from 2008 levels primarily due to $20.9 million of savings from RCI and other cost containment actions, $8.4 million of favorable foreign currency effects, and lower volume-related and other expenses. These declines in operating expenses were partially offset by $4.6 million of higher bad debt expense in 2009 primarily related to increased credit exposure at North American automotive dealerships. The year-over-year operating expense comparison was also impacted by the adjustment of a pre-acquisition contingency acquired with Snap-on Business Solutions that reduced 2008 operating expenses by $5.4 million. As a percentage of sales, operating expenses in 2009 of 28.7% compared to 26.7% in 2008.

As a result of these factors, segment operating earnings for the Repair Systems & Information Group of $122.1 million in 2009 decreased $9.9 million from 2008 levels. As a percentage of segment net sales, operating earnings improved from 13.9% in 2008 to 15.7% in 2009. The $9.9 million decrease in year-over-year operating earnings included $3.8 million of unfavorable foreign currency effects.

Financial Services

(Amounts in millions)	2009		2008		Change	
Financial services revenue	$ 58.3	100.0%	$ 81.4	100.0%	$ (23.1)	-28.4%
Financial services expenses	(40.8)	-70.0%	(44.1)	-54.2%	3.3	7.5%
Segment operating earnings	$ 17.5	30.0%	$ 37.3	45.8%	$ (19.8)	-53.1%

Segment operating earnings were $17.5 million on $58.3 million of revenue in 2009, as compared with $37.3 million of operating earnings on $81.4 million of revenue in 2008. On July 16, 2009, Snap-on terminated its financial services joint venture agreement with CIT and subsequently purchased CIT s 50%-ownership interest in SOC. Since July 16, 2009, Snap-on has been providing financing for the majority of new loans originated by SOC and SOC is recording the interest yield on the new on-book receivables over the life of the contracts as financial services revenue. Prior to July 16, 2009, SOC sold new contract originations to CIT and recorded gains on the sale of the contracts as financial services revenue. The change from recognizing gains on contract sales to CIT, to recognizing the interest yield on the on-book receivables, was a primary factor in the year-over-year declines in both revenues and operating earnings. Originations of $498.1 million in 2009 decreased $12.6 million, or 2.5%, from 2008 levels. The $19.8 million decrease in year-over-year financial services operating earnings included $1.4 million of unfavorable foreign currency effects. See Notes 1, 2 and 3 to the Consolidated Financial Statements for further information.

Corporate

Snap-on s general corporate expenses totaled $45.3 million in 2009 as compared to $46.4 million in 2008. The $1.1 million decline in year-over-year corporate expenses is primarily due to lower performance-based incentive compensation and other expenses, partially offset by $12.0 million of higher pension expense primarily due to the amortization of investment losses incurred in 2008 related to the company s domestic pension plan assets.

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

Supplemental Consolidating Data Supplemental Statements of Earnings information for 2009 and 2008 is as follows:

	Operations*		Financial Services	
(Amounts in millions)	2009	2008	2009	2008
Net sales	$ 2,362.5	$ 2,853.3	$	$
Cost of goods sold	(1,304.9)	(1,568.7)		
Gross profit	1,057.6	1,284.6		
Operating expenses	(824.4)	(933.1)		
Operating earnings before financial services	233.2	351.5		
Financial services revenue			58.3	81.4
Financial services expenses			(40.8)	(44.1)
Operating earnings from financial services			17.5	37.3
Operating earnings	233.2	351.5	17.5	37.3
Interest expense	(47.7)	(33.8)		
Intersegment interest income (expense) net	3.0	(2.3)	(3.0)	2.3
Other income (expense) net	3.0	2.5	(0.7)	0.3
Earnings before income taxes and equity earnings	191.5	317.9	13.8	39.9
Income tax expense	(60.1)	(104.6)	(2.6)	(13.2)
Earnings before equity earnings	131.4	213.3	11.2	26.7
Financial services net earnings attributable to Snap-on Incorporated	6.9	24.5		
Equity earnings, net of tax	1.1	3.6		
Net earnings	139.4	241.4	11.2	26.7
Net earnings attributable to noncontrolling interests	(5.2)	(4.7)	(4.3)	(2.2)
Net earnings attributable to Snap-on Incorporated	$ 134.2	$ 236.7	$ 6.9	$ 24.5

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

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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, coupled with its sources of borrowings and available cash on hand, are sufficient to fund its currently anticipated requirements for scheduled debt repayments, loans originated by SOC, working capital, capital expenditures, restructuring activities, acquisitions, the funding of pension plans, common stock repurchases and dividend payments. Due to Snap-on s credit rating over the years, external funds have been available at a reasonable cost. As of the close of business on February 11, 2011, Snap-on s long-term debt and commercial paper was rated Baa1 and P-2 by Moody s Investors Service and A- and A-2 by Standard & Poor s. 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. 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 2010 year end, working capital (current assets less current liabilities) of $884.4 million decreased $51.8 million from $936.2 million at 2009 year end.

The following represents the company s working capital position as of 2010 and 2009 year end:

(Amounts in millions)	2010	2009
Cash and cash equivalents	$ 572.2	$ 699.4
Trade and other accounts receivable net	443.3	414.4
Finance receivables net	215.3	122.3
Contract receivables net	45.6	32.9
Inventories net	329.4	274.7
Other current assets	159.7	132.4
Total current assets	1,765.5	1,676.1
Notes payable and current maturities of long-term debt	(216.0)	(164.7)
Accounts payable	(146.1)	(119.8)
Other current liabilities	(519.0)	(455.4)
Total current liabilities	(881.1)	(739.9)
Total working capital	$ 884.4	$ 936.2

Cash and cash equivalents as of 2010 year end totaled $572.2 million as compared to $699.4 million at the end of 2009. The $127.2 million decrease in cash and cash equivalents is primarily due to the funding of new loans originated by SOC, the January 2010 repayment of $150 million of floating rate debt upon its maturity and the fourth quarter 2010 funding of a $48.0 million discretionary cash contribution to the company s domestic pension plans. These decreases to cash and cash equivalents were partially offset by $247.7 million of proceeds, net of $1.6 million of transaction costs, from the December 2010 issuance of $250 million of unsecured 4.25% long-term notes at a discount; Snap-on is using the proceeds from the sale of these notes for general corporate purposes, which may include working capital, capital expenditures, repayment of all or a portion of the company s $200 million of 6.25% unsecured notes maturing on August 15, 2011, the financing of finance and contract receivables related to SOC, and possible acquisitions.

Trade and other accounts receivable net as of 2010 year end of $443.3 million increased $28.9 million from 2009 year-end levels. Excluding $6.5 million of foreign currency translation impacts, trade and other accounts receivable net increased $35.4 million from 2009 levels primarily due to higher sales. Days sales outstanding (year-end trade and other accounts receivable net divided by full-year sales, times 360 days) at 2010 year end was 61 days as compared to 63 days at 2009 year end.

The current portions of net finance and contract receivables as of 2010 year end totaled $260.9 million as compared to $155.2 million last year. The long-term portions of net finance and contract receivables as of 2010 year end totaled $465.0 million as compared to $248.6 million last year. The combined $322.1 million increase in net current and long-term finance and contract receivables over year-end 2009 levels is primarily due to the growth of the company s on- balance- sheet finance portfolio following the July 16, 2009 termination of the financial services joint venture agreement with CIT. Since July 16, 2009, Snap-on has been providing financing for the majority of new finance and contract receivables originated by SOC and the related receivables are included on the company s balance sheet; prior to July 16, 2009, SOC sold most of its loan originations to CIT.

Inventories of $329.4 million as of 2010 year end increased $54.7 million from 2009 levels; excluding foreign currency translation impacts, inventories increased $55.6 million from 2009 year-end levels primarily due to increased production to support higher customer demand. 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) were 4.7 turns and 4.1 turns as of 2010 and 2009 year end, respectively. Inventories accounted for using the first-in, first-out (FIFO) method as of 2010 and 2009 year end approximated 64% and 66% of total inventories, respectively. All other inventories are accounted for using the LIFO method. The company s LIFO reserve was $68.4 million at both 2010 and 2009 year end.

Notes payable and current maturities of long-term debt of $216.0 million as of 2010 year end included $200 million of unsecured 6.25% notes that mature on August 15, 2011, and $16.0 million of other notes. Notes payable and current maturities of long-term debt of $164.7 million as of 2009 year end included $150 million of unsecured floating rate debt that matured, and was repaid with available cash, on January 12, 2010, and $14.7 million of other notes. As of 2009 year end, the $200 million of unsecured notes that mature on August 15, 2011, were included in Long-term debt on the accompanying Consolidated Balance Sheets as their scheduled maturity was in excess of one year of the 2009 year-end balance sheet date.

Accounts payable as of 2010 year end of $146.1 million increased $26.3 million from 2009 levels; excluding foreign currency translation impacts, accounts payable increased $27.8 million from 2009 levels primarily due to higher levels of inventory to support increased customer demand.

Other accrued liabilities of $346.9 million and $301.4 million as of 2010 and 2009 year end, respectively, included $107.8 million and $81.5 million, respectively, of amounts withheld from CIT. Snap-on filed a notice of arbitration on January 8, 2010, concerning a dispute with CIT relating to various underpayments made during the course of their financial services joint venture, in which Snap-on alleged damages of approximately $115 million. As a result of the dispute, Snap-on has withheld certain amounts (totaling $107.8 million as of 2010 year end and $81.5 million as of 2009 year end) from payments made to CIT relating to SOC s ongoing business activities. CIT filed its response denying Snap-on s claim and asserting certain claims against Snap-on for other matters relating to the joint venture on January 29, 2010. CIT s claims allege damages in excess of $110 million, the majority of which relates to returning the amounts withheld by Snap-on. Discovery in the CIT matter is ongoing, with arbitration scheduled for the second quarter of 2011. At this time, no determination can be made as to the likely outcome of this dispute. See Part I, Item 3: Legal Proceedings and Note 15 to the Consolidated Financial Statements.

Long-term debt of $954.8 million at 2010 year end included: (i) $100 million of unsecured 5.85% notes that mature in 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) $4.8 million of other long-term debt.

Average commercial paper and notes payable outstanding were $15.1 million in 2010 and $15.2 million in 2009. The weighted-average interest rate on these instruments was 5.27% in 2010 and 6.94% in 2009. As of 2010 year end, the weighted-average interest rate on outstanding notes payable was 5.54% as compared to 5.34% as of 2009 year end.

Snap-on has a five-year, $500 million multi-currency revolving credit facility that terminates on August 10, 2012; as of 2010 year end, no amounts were outstanding under this revolving credit facility. The $500 million revolving credit facility s financial covenant requires that Snap-on maintain, as of each fiscal quarter end, either (i) a ratio of total debt to the sum of total debt plus shareholders equity 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 2010 year end, the company s actual ratios of 0.46 and 2.80, respectively, were both within the permitted ranges as set forth in this financial covenant.

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Snap-on also had $20 million of unused available debt capacity under its committed bank lines of credit as of 2010 year end, including a $10 million line of credit that expires on July 26, 2011, and a $10 million line of credit that expires on August 28, 2011.

On December 14, 2010, Snap-on sold $250 million of fixed rate unsecured long-term notes at a discount. Interest on the notes, which mature in their entirety on January 15, 2018, accrues at a rate of 4.25% per year and is payable semi-annually beginning on July 15, 2011. Snap-on anticipates using 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 may include working capital, capital expenditures, repayment of all or a portion of the company s $200 million of 6.25% unsecured notes maturing on August 15, 2011, the financing of finance and contract receivables related to SOC, and possible acquisitions.

On October 1, 2010, Snap-on entered into a loan and servicing agreement that provides for aggregate revolving credit commitments in the principal amount of up to $100 million (subject to borrowing base requirements). The loan and servicing agreement, which supplements the company s previously existing available credit facilities, allows Snap-on to secure borrowings of up to $100 million through the pledging of finance receivables under a third-party sponsored asset-backed commercial paper conduit facility. As of 2010 year end, no amounts were outstanding under this agreement. The agreement is currently scheduled to expire on September 30, 2011; however, the agreement may be renewed once each year for an additional 364-day term upon request by Snap-on and subsequent concurrence by the lenders.

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 October 1, 2010 loan and servicing agreement, also contain certain usual and customary borrowing, affirmative, negative and maintenance covenants. As of 2010 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 committed and uncommitted lines of credit and liquidity 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 and committed lines of credit. If the need were to arise, Snap-on believes that it could access short-term debt markets, predominantly through commercial paper issuances, existing lines of credit and securitizations (including its 2010 loan and servicing agreement discussed above), 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 the August 15, 2011 repayment of $200 million of fixed rate debt upon its maturity, funding of new loans originated by SOC, the possible resolution of the dispute with CIT discussed above, funding for capital expenditures and restructuring activities, payments of dividends and interest, and funding for share repurchases, if any. Snap-on also expects to make contributions of $10.2 million to its foreign pension plans and $1.4 million to its domestic pension plans in 2011. Depending on market and other conditions, Snap-on may elect to make discretionary cash contributions to its domestic pension plans in 2011.

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 $140.4 million in 2010, $347.1 million in 2009 and $220.4 million in 2008. The lower net cash provided by operating activities in 2010 was primarily due to net changes in operating assets and liabilities as a result of higher sales and increased customer demand, including $116.6 million of higher trade, contract and other receivables and $55.2 million of increased inventories. The decrease in net cash provided by operating activities in 2010 also included a fourth quarter 2010 discretionary cash contribution of $48.0 million to the company s domestic pension plans.

Depreciation expense was $48.7 million in 2010, $49.9 million in 2009 and $47.9 million in 2008. Amortization expense was $24.0 million in 2010, $24.7 million in 2009 and $24.1 million in 2008. See Note 6 to the Consolidated Financial Statements for information on acquired intangible assets.

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

Following the July 16, 2009 acquisition of CIT s ownership interest in SOC, Snap-on began presenting Provisions for losses on finance receivables on the Consolidated Statements of Cash Flow as part of Net cash provided by operating activities. The non-cash provision for loan losses on finance receivables totaled $13.9 million in 2010; for the period from July 16, 2009, to fiscal 2009 year end, the non-cash provision for loan losses on finance receivables totaled $6.2 million. Prior to July 16, 2009, the non-cash provisions for loan losses on finance receivables, which primarily related to the company s international finance subsidiaries, are included in (Increase) decrease in contract receivables; prior period amounts were not restated as the amounts were not significant, individually or in the aggregate, to Snap-on s Consolidated Statements of Cash Flow.

The Consolidated Statements of Cash Flow also reflect, beginning in 2010, the Provision for losses on non-finance receivables. The non-cash provision for losses on non-finance receivables totaled $20.5 million in 2010. Prior to 2010, the provisions for losses on non-finance receivables are included in (Increase) decrease in trade and other accounts receivable and (Increase) decrease in contract receivables as part of Net cash provided by operating activities; prior year amounts were not restated as the amounts were not significant, individually or in the aggregate, to Snap-on s Consolidated Statements of Cash Flow. See Note 3 to the Consolidated Financial Statements for further information on receivables.

Investing Activities

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. Following the termination of CIT s ownership interest in SOC on July 16, 2009, Snap-on began presenting Additions to finance receivables and Collections of finance receivables on the Consolidated Statements of Cash Flow as part of Net cash used by investing activities. Finance receivables are comprised of extended-term installment loans to technicians (i.e. franchisees customers) to enable them to purchase tools, diagnostics and equipment on an extended-term payment plan, generally with average payment terms of 32 months. For financial statement periods prior to July 16, 2009, the net additions and collections of finance receivables, which primarily related to the company s international finance subsidiaries, are included in (Increase) decrease in contract receivables; prior period amounts were not restated as the amounts were not significant, individually or in the aggregate, to Snap-on s Consolidated Statements of Cash Flow.

Capital expenditures in 2010, 2009 and 2008 totaled $51.1 million, $64.4 million and $73.9 million, respectively. Capital expenditures in 2010 included continued spending to support the company s strategic growth initiatives, including the expansion of manufacturing capabilities in lower-cost regions and emerging growth markets. Capital spending in 2010 also included spending to enhance the company s corporate headquarters and research and development facilities in Kenosha, Wisconsin. Capital expenditures in all three years included higher levels of efficiency and cost-reduction capital investments, including the installation of new production equipment and machine tooling to enhance manufacturing and distribution operations, as well as provide ongoing replacements of manufacturing and distribution equipment. Capital spending over the last three years also included spending for the replacement and enhancement of the company s existing global enterprise resource planning (ERP) management information systems. Capital expenditures in 2009 also included the accelerated expansion of manufacturing capabilities in lower-cost regions and emerging growth markets. Capital expenditures in 2009 and 2008 included spending for the construction of a new headquarters and research and development facility for the company s automotive parts and service information business in Richfield, Ohio. 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 2011.

Snap-on acquired the remaining 40% interest in Wanda Snap-on, the company s tool manufacturing operation in Xiaoshan, China, on April 6, 2010, for a purchase price of $7.7 million and $0.1 million of transaction costs. Snap-on acquired the initial 60% interest in Wanda Snap-on for a cash purchase price of $15.4 million (or $14.1 million, net of cash acquired), including $1.2 million of transaction costs, on March 5, 2008. The acquisition of Wanda Snap-on is part of the company s ongoing strategic initiatives to further expand its manufacturing presence in emerging growth markets and lower-cost regions. On July 1, 2010, Wanda Snap-on was renamed Snap-on Asia Manufacturing (Zhejiang) Co., Ltd. See Note 2 to the Consolidated Financial Statements for additional information.

Snap-on terminated its SOC financial services operating agreement with CIT on July 16, 2009, and subsequently purchased, pursuant to the terms of the joint venture agreement, CIT s 50%-ownership interest in SOC for a cash purchase price of $8.1 million. The $8.1 million purchase price represented the book value, and approximated the fair value, of CIT s ownership interest in SOC as of the acquisition date. See Note 2 to the Consolidated Financial Statements for additional information.

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Financing Activities

Net cash provided by financing activities was $34.8 million in 2010. On December 14, 2010, Snap-on sold $250 million of unsecured 4.25% long-term notes at a discount; Snap-on is using 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 may include working capital, capital expenditures, repayment of all or a portion of the company s $200 million 6.25% unsecured notes maturing on August 15, 2011, the financing of finance and contract receivables related to SOC, and possible acquisitions. On January 12, 2010, Snap-on repaid $150 million of unsecured floating rate debt upon its maturity with available cash.

On February 24, 2009, Snap-on sold $300 million of unsecured fixed rate notes consisting of $100 million of unsecured 5.85% notes that mature in 2014, and $200 million of unsecured 6.70% notes that mature in 2019. On August 14, 2009, Snap-on sold $250 million of unsecured 6.125% long-term notes that mature in 2021. Snap-on is using, and has used, the $545.9 million of proceeds from the sale of these notes, net of $4.1 million of transaction costs, for general corporate purposes, including the funding of receivables contracts originated by SOC and the January 12, 2010 repayment of $150 million of floating rate debt.

Proceeds from stock purchase plans and stock option exercises totaled $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 dealer stock purchase plans, stock options and other corporate purposes. In 2010, Snap-on repurchased 152,000 shares of its common stock for $8.7 million under its previously announced share repurchase programs. As of 2010 year end, Snap-on had remaining availability to repurchase up to an additional $159.4 million in common stock pursuant to its Board of Directors (Board) authorizations. The purchase of Snap-on common stock is at the company s discretion, subject to prevailing financial and market conditions. Snap-on did not repurchase any shares of its common stock in 2009; Snap-on repurchased 1,230,000 shares of its common stock for $69.8 million in 2008. 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 2011.

Snap-on has paid consecutive quarterly cash dividends, without interruption or reduction, since 1939. Cash dividends paid in 2010, 2009 and 2008 totaled $71.3 million, $69.0 million and $69.7 million, respectively. On November 4, 2010, the company announced that its Board increased the quarterly cash dividend by 6.7% to $0.32 per share ($1.28 per share per year). Quarterly dividends declared 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). Quarterly dividends in 2009 and 2008 were $0.30 per share ($1.20 per share for each year).

	2010	2009	2008
Cash dividends paid per common share	$ 1.22	$ 1.20	$ 1.20
Cash dividends paid as a percent of prior-year retained earnings	4.7%	4.7%	5.4%

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 2011.

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 2010 year end.

Contractual Obligations and Commitments

A summary of Snap-on s future contractual obligations and commitments as of 2010 year end are as follows:

(Amounts in millions)	Total	2011	2012-2013	2014-2015	2016 and thereafter
Contractual obligations:					
Notes payable and current maturities of long-term debt	$ 216.0	$ 216.0	$	$	$
Long-term debt	954.8			100.0	854.8
Interest on fixed rate debt	423.6	61.2	106.9	96.1	159.4
Operating leases	92.4	26.1	35.5	16.8	14.0
Capital leases	28.4	2.4	4.7	3.8	17.5
Purchase obligations	2.3	1.8	0.5		
Total	$ 1,717.5	$ 307.5	$ 147.6	$ 216.7	$ 1,045.7

The company has excluded payments related to its pension and postretirement benefit plans from the contractual obligation table above; see Notes 11 and 12 to the Consolidated Financial Statements for information on the company s benefit plans and payments. The contractual obligation table above also does not include normal inventory-related and service purchases or income tax liabilities recorded in accordance with U.S. GAAP; 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.

New Accounting Standards

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

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, 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 or product installation, 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 software and software-related services. When a sales arrangement contains multiple elements, such as hardware and software products and/or services, Snap-on uses estimates of fair value for hardware elements and vendor specific objective evidence (VSOE) of fair value for software elements to allocate revenue to each element based on its relative fair value and, when necessary, uses the residual method to assign value to the delivered elements when VSOE only exists for the undelivered elements. The amount assigned to future delivery of 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 applicable agreement, which generally ranges from 12 to 60 months.

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.

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 products on an extended term payment plan; and (ii) business loans and vehicle leases to franchisees. These financing programs are offered through Snap-on s wholly-owned finance subsidiaries. Financial services revenue consists of installment contract revenue and franchisee loan receivable revenue. For periods prior to July 16, 2009, financial services revenue also included gains from SOC s sales of originated contracts to CIT. 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 of consumer credit risk scores combined with internal credit risk grades, collection experience and other internal metrics.

Prior to July 16, 2009, SOC substantially sold all of its loan originations to CIT on a limited recourse basis; SOC retained the right to service such loans for a contractual servicing fee. Contractual servicing fees were $4.9 million in 2010, $8.3 million in 2009 and $9.2 million in 2008.

Snap-on s international finance subsidiaries own the loans originated through their financing programs; loans originated by SOC subsequent to July 16, 2009, and loans retained by SOC prior to July 16, 2009, are also owned by Snap-on. 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.

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.

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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 current and long range 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 rates, price increases, capital expenditures, working capital levels, the benefits of recent acquisitions and expected synergies, 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 2010 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.

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 current and long range 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 equity 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 2010 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.

Snap-on did not recognize any impairment on its goodwill or other indefinite-lived intangible assets in 2010, 2009 or 2008. 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 adverse changes in business climate, adverse actions by regulators, unanticipated competition, loss of key customers, and/or changes in technology or markets, 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 2010, the results of which did not result in any impairment. 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 2010 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.

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Significant and unanticipated changes in circumstances, such as significant adverse changes in business climate, adverse actions by regulators, unanticipated competition, loss of key customers and/or changes in technology or markets, 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 Personal 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.

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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 loan 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. 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.

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Snap-on does not believe that 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 2010 domestic pension expense by approximately $3.2 million. Snap-on uses a three-year, market-related value asset method of amortizing the difference between actual and expected returns on its domestic plan 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 methodology for selecting the discount rate as of 2010 year end was to match the plan s cash flows to that of a theoretical bond portfolio yield curve that provides the equivalent yields on zero-coupon bonds with an AA rating or better for each maturity. The selection of the 5.3% weighted-average discount rate for Snap-on s domestic pension plans 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 2010 domestic pension expense and projected benefit obligation by approximately $4.8 million and $49.2 million, respectively. At 2010 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 5.3% 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 2010 foreign pension expense and projected benefit obligation by approximately $1.6 million and $16.8 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. An increase of one percentage point in health care costs would increase the accumulated postretirement benefit obligation by $2.3 million and the combined annual service and interest cost by $0.1 million. A corresponding decrease of one percentage point would decrease the accumulated postretirement benefit by $2.0 million and the combined annual service and interest cost 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.

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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 anticipates continuing with its planned strategic investments in 2011, including further expansion in emerging growth markets. As a result, capital expenditures are anticipated to be in a range of $55 million to $65 million. Snap-on also expects to incur $11 million of higher year-over-year pension expense in 2011 largely due to the amortization of investment losses incurred in 2008 related to its domestic pension plan assets. Interest expense on the $250 million of senior notes issued in December 2010 will approximate $2.7 million per quarter in 2011. Snap-on anticipates that its full year 2011 effective income tax rate will approximate 33.0%.

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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 i