

SNAP-ON Inc
Form 10-Q
July 31, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended July 4, 2009

OR

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

For the transition period from to

Commission File Number 1-7724

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

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

Edgar Filing: SNAP-ON Inc - Form 10-Q

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

53143
(Zip code)

(262) 656-5200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

| Class | Outstanding at July 24, 2009 |
|--------------------------------|------------------------------|
| Common Stock, \$1.00 par value | 57,713,549 shares |

Table of Contents

TABLE OF CONTENTS

| | Page |
|---|--|
| <u>Part I: Financial Information</u> | |
| <u>Item 1.</u> | |
| | <u>Financial Statements</u> |
| | <u>Condensed Consolidated Statements of Earnings (unaudited) Three and Six Months Ended July 4, 2009, and June 28, 2008</u> |
| | 3 |
| | <u>Condensed Consolidated Balance Sheets (unaudited) July 4, 2009, and January 3, 2009</u> |
| | 4-5 |
| | <u>Condensed Consolidated Statements of Cash Flows (unaudited) Six Months Ended July 4, 2009, and June 28, 2008</u> |
| | 6 |
| | <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u> |
| | 7-29 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> |
| | 30-51 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> |
| | 52-53 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> |
| | 53 |
| <u>Part II: Other Information</u> | |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> |
| | 54 |
| <u>Item 4.</u> | <u>Submission of Matters to a Vote of Security Holders</u> |
| | 55 |
| <u>Item 6.</u> | <u>Exhibits</u> |
| | 56 |
| | <u>Signatures</u> |
| | 57 |
| | <u>Exhibit Index</u> |
| | 58 |

Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1: Financial Statements****SNAP-ON INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

(Amounts in millions, except per share data)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | July 4, 2009 | June 28, 2008 | July 4, 2009 | June 28, 2008 |
| Net sales | \$ 590.0 | \$ 766.1 | \$ 1,162.6 | \$ 1,487.7 |
| Cost of goods sold | (336.0) | (419.6) | (649.9) | (815.3) |
| Gross profit | 254.0 | 346.5 | 512.7 | 672.4 |
| Financial services revenue | 25.6 | 18.3 | 45.6 | 43.7 |
| Financial services expenses | (9.0) | (7.5) | (19.0) | (20.1) |
| Operating income from financial services | 16.6 | 10.8 | 26.6 | 23.6 |
| Operating expenses | (200.3) | (245.6) | (404.7) | (491.1) |
| Operating earnings | 70.3 | 111.7 | 134.6 | 204.9 |
| Interest expense | (11.6) | (8.8) | (20.2) | (18.3) |
| Other income (expense) net | 1.1 | 1.3 | 0.8 | 2.3 |
| Earnings before income taxes and equity earnings (loss) | 59.8 | 104.2 | 115.2 | 188.9 |
| Income tax expense | (17.6) | (34.5) | (35.9) | (62.8) |
| Earnings before equity earnings (loss) | 42.2 | 69.7 | 79.3 | 126.1 |
| Equity earnings (loss), net of tax | (0.2) | 0.7 | (0.1) | 2.0 |
| Net earnings | 42.0 | 70.4 | 79.2 | 128.1 |
| Net earnings attributable to noncontrolling interests | (4.6) | (3.5) | (7.0) | (4.6) |
| Net earnings attributable to Snap-on Incorporated | \$ 37.4 | \$ 66.9 | \$ 72.2 | \$ 123.5 |
| Net earnings per share attributable to Snap-on Incorporated | | | | |
| Basic | \$ 0.65 | \$ 1.16 | \$ 1.25 | \$ 2.15 |
| Diluted | 0.65 | 1.15 | 1.25 | 2.12 |
| Weighted-average shares outstanding: | | | | |
| Basic | 57.7 | 57.6 | 57.6 | 57.6 |
| Effect of dilutive options | 0.2 | 0.5 | 0.3 | 0.6 |
| Diluted | 57.9 | 58.1 | 57.9 | 58.2 |
| Dividends declared per common share | \$ 0.30 | \$ 0.30 | \$ 0.60 | \$ 0.60 |

Edgar Filing: SNAP-ON Inc - Form 10-Q
See Notes to Condensed Consolidated Financial Statements

Table of Contents

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

Edgar Filing: SNAP-ON Inc - Form 10-Q

(Amounts in millions, except share data)

(Unaudited)

| | July 4, 2009 | January 3, 2009 |
|--|-----------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 524.4 | \$ 115.8 |
| Accounts receivable net | 472.6 | 522.1 |
| Inventories net | 302.8 | 359.2 |
| Deferred income tax assets | 59.7 | 64.1 |
| Prepaid expenses and other assets | 84.8 | 79.5 |
| Total current assets | 1,444.3 | 1,140.7 |
| Property and equipment | | |
| Land | 21.0 | 20.7 |
| Buildings and improvements | 233.7 | 227.6 |
| Machinery, equipment and computer software | 582.1 | 556.2 |
| | 836.8 | 804.5 |
| Accumulated depreciation and amortization | (499.0) | (476.7) |
| Property and equipment net | 337.8 | 327.8 |
| Deferred income tax assets | 63.1 | 77.2 |
| Goodwill | 806.4 | 801.8 |
| Other intangibles net | 213.4 | 218.3 |
| Other assets | 142.0 | 144.5 |
| Total assets | \$ 3,007.0 | \$ 2,710.3 |

See Notes to Condensed Consolidated Financial Statements

Table of Contents

SNAP-ON INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

| | July 4, 2009 | January 3, 2009 |
|--|-----------------|--------------------|
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$ 108.1 | \$ 126.0 |
| Notes payable and current maturities of long-term debt | 166.7 | 12.0 |
| Accrued benefits | 38.3 | 41.7 |
| Accrued compensation | 53.2 | 78.3 |
| Franchisee deposits | 42.9 | 46.9 |
| Deferred subscription revenue | 23.8 | 22.3 |
| Income taxes | 5.2 | 15.4 |
| Other accrued liabilities | 182.9 | 204.9 |
| Total current liabilities | 621.1 | 547.5 |
| Long-term debt | 652.6 | 503.4 |
| Deferred income tax liabilities | 94.8 | 95.0 |
| Retiree health care benefits | 56.2 | 57.5 |
| Pension liabilities | 214.6 | 209.1 |
| Other long-term liabilities | 81.5 | 93.3 |
| Total liabilities | 1,720.8 | 1,505.8 |
| Shareholders' equity | | |
| Shareholders' equity attributable to Snap-on Incorporated: | | |
| Preferred stock (authorized 15,000,000 shares of \$1 par value; none outstanding) | | |
| Common stock (authorized 250,000,000 shares of \$1 par value; issued 67,244,800 and 67,197,346 shares) | 67.2 | 67.2 |
| Additional paid-in capital | 155.0 | 155.5 |
| Retained earnings | 1,501.5 | 1,463.7 |
| Accumulated other comprehensive income (loss) | (68.7) | (106.5) |
| Treasury stock at cost (9,531,397 and 9,755,405 shares) | (392.6) | (393.4) |
| Total shareholders' equity attributable to Snap-on Incorporated | 1,262.4 | 1,186.5 |
| Noncontrolling interests | 23.8 | 18.0 |
| Total shareholders' equity | 1,286.2 | 1,204.5 |
| Total liabilities and shareholders' equity | \$ 3,007.0 | \$ 2,710.3 |

See Notes to Condensed Consolidated Financial Statements

Table of Contents

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Edgar Filing: SNAP-ON Inc - Form 10-Q

(Amounts in millions)

(Unaudited)

| | Six Months Ended | |
|--|------------------|------------------|
| | July 4, 2009 | June 28, 2008 |
| Operating activities: | | |
| Net earnings | \$ 79.2 | \$ 128.1 |
| Adjustments to reconcile net earnings to net cash provided (used) by operating activities: | | |
| Depreciation | 24.8 | 24.4 |
| Amortization of other intangibles | 12.3 | 12.1 |
| Stock-based compensation expense (income) | (4.2) | 8.0 |
| Excess tax benefits from stock-based compensation | | (5.4) |
| Deferred income tax provision | 18.2 | 16.4 |
| Loss (gain) on sale of assets | 0.4 | (0.1) |
| Gain on mark to market for cash flow hedges | | (0.1) |
| Changes in operating assets and liabilities, net of effects of acquisition: | | |
| (Increase) decrease in receivables | 56.2 | (13.5) |
| (Increase) decrease in inventories | 62.5 | (39.5) |
| (Increase) decrease in prepaid and other assets | 3.1 | 14.0 |
| Increase (decrease) in accounts payable | (19.0) | 6.7 |
| Increase (decrease) in accruals and other liabilities | (63.2) | (2.8) |
| Net cash provided by operating activities | 170.3 | 148.3 |
| Investing activities: | | |
| Capital expenditures | (33.6) | (33.3) |
| Acquisitions of business net of cash acquired | | (13.8) |
| Proceeds from disposal of property and equipment | 0.1 | 7.7 |
| Other | 3.2 | (5.1) |
| Net cash used by investing activities | (30.3) | (44.5) |
| Financing activities: | | |
| Proceeds from issuance of long-term debt | 297.7 | |
| Net increase (decrease) in short-term borrowings | 4.2 | (0.7) |
| Purchase of treasury stock | | (66.3) |
| Proceeds from stock purchase and option plans | 3.4 | 39.0 |
| Cash dividends paid | (34.4) | (34.9) |
| Excess tax benefits from stock-based compensation | | 5.4 |
| Other | (3.4) | (0.4) |
| Net cash provided (used) by financing activities | 267.5 | (57.9) |
| Effect of exchange rate changes on cash and cash equivalents | 1.1 | 1.7 |
| Increase in cash and cash equivalents | 408.6 | 47.6 |
| Cash and cash equivalents at beginning of year | 115.8 | 93.0 |
| Cash and cash equivalents at end of period | \$ 524.4 | \$ 140.6 |
| Supplemental cash flow disclosures: | | |
| Cash paid for interest | \$ (13.9) | \$ (18.4) |
| Net cash paid for income taxes | (23.4) | (28.0) |

See Notes to Condensed Consolidated Financial Statements

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Summary of Accounting Policies

These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Snap-on Incorporated's (Snap-on or the company) 2008 Annual Report on Form 10-K for the fiscal year ended January 3, 2009. The company's 2009 fiscal second quarter ended on July 4, 2009; the 2008 fiscal second quarter ended on June 28, 2008.

The Condensed Consolidated Financial Statements include the accounts of Snap-on, its majority-owned subsidiaries and Snap-on Credit LLC (SOC a 50%-owned joint venture with The CIT Group, Inc. (CIT). The Condensed Consolidated Financial Statements do not include the accounts of the company's independent franchisees. Snap-on's condensed consolidated financial statements are prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). All intercompany accounts and transactions have been eliminated. The company has evaluated all subsequent events that occurred up to the time of the company's issuance of its