SNAP-ON Inc
Form 10-K
February 14, 2014
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
**For the fiscal year ended December 28, 2013, or**

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
**Commission File Number 1-7724**

**(Exact name of registrant as specified in its charter)**

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

**(262) 656-5200**

**(Registrant's telephone number, including area code)**

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates (excludes 312,480 shares held by directors and executive officers) computed by reference to the price ($89.38) at which common equity was last sold as of the last business day of the registrant s most recently completed second fiscal quarter (June 28, 2013) was $5.2 billion.

The number of shares of Common Stock ($1.00 par value) of the registrant outstanding as of February 7, 2014, was 58,122,647 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Annual Report on Form 10-K incorporates by reference certain information that will be set forth in Snap-on s Proxy Statement, which is expected to first be mailed to shareholders on or about March 11, 2014, prepared for the Annual Meeting of Shareholders scheduled for April 24, 2014.

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**PART I**

**Safe Harbor**

Statements in this document that are not historical facts, including statements that (i) are in the future tense; (ii) include the words expects, plans, targets, estimates, believes, anticipates, or similar words that reference Snap-on Incorporated ( Snap-on or the company ) or its mana (iii) are specifically identified as forward-looking; or (iv) describe Snap-on s or management s future outlook, plans, estimates, objectives or goals, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Snap-on cautions the reader that any forward-looking statements included in this document that are based upon assumptions and estimates were developed by management in good faith and are subject to risks, uncertainties or other factors that could cause (and in some cases have caused) actual results to differ materially from those described in any such statement. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results or regarded as a representation by the company or its management that the projected results will be achieved. For those forward-looking statements, Snap-on cautions the reader that numerous important factors, such as those listed below, as well as those factors discussed in this Annual Report on Form 10-K, particularly those in Item 1A: Risk Factors, could affect the company s actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, Snap-on.

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

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

Snap-on s fiscal year ends on the Saturday that is on or nearest to December 31. Unless otherwise indicated, references in this document to fiscal 2013 or 2013 refer to the fiscal year ended December 28, 2013; references in this document to fiscal 2012 or 2012 refer to the fiscal year ended December 29, 2012; references to fiscal 2011 or 2011 refer to the fiscal year ended December 31, 2011. References in this document to 2013, 2012 and 2011 year end refer to December 28, 2013, December 29, 2012, and December 31, 2011, respectively.

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**Item 1: Business**

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

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

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

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

Snap-on s business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on s reportable business segments are: (i) the Commercial & Industrial Group; (ii) the Snap-on Tools Group; (iii) the Repair Systems & Information Group; and (iv) Financial Services. The Commercial & Industrial Group consists of business operations serving a broad range of industrial and commercial customers worldwide, primarily through direct and distributor channels. The Snap-on Tools Group consists of business operations primarily serving vehicle service and repair technicians through the company s worldwide mobile tool distribution channel. The Repair Systems & Information Group consists of business operations serving other professional vehicle repair customers worldwide, primarily owners and managers of independent repair shops and OEM dealership service and repair shops, through direct and distributor channels. Financial Services consists of the business operations of Snap-on Credit LLC ( SOC ), the company s financial services business in the United States, and Snap-on s other financial services subsidiaries in those international markets where Snap-on has franchise operations. See Note 18 to the Consolidated Financial Statements for information on business segments and foreign operations.

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

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On May 13, 2013, Snap-on acquired 100% of Challenger Lifts, Inc. ( Challenger ) for a cash purchase price of $38.2 million, including post-closing adjustments. Challenger designs, manufactures and distributes a comprehensive line of vehicle lifts and accessories to a diverse customer base in the automotive repair sector. The acquisition of the Challenger vehicle lift product line complemented and increased Snap-on s existing undercar equipment offering, broadened its established capabilities in serving vehicle repair facilities and expanded the company s presence with repair shop owners and managers. For segment reporting purposes, the results of operations and assets of Challenger have been included in the Repair Systems & Information Group since the date of acquisition. Pro forma financial information has not been presented as the net effects of the Challenger acquisition were neither significant nor material to Snap-on s results of operations or financial position.

**Information Available on the Company s Website**

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

**Products and Services**

***Tools, Diagnostics and Repair Information, and Equipment***

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

| | | Net Sales | |
|---|---|---|---|
| *(Amounts in millions)* | 2013 | 2012 | 2011 |
| Product Category: | | | |
| Tools | $ 1,743.3 | $ 1,729.4 | $ 1,667.3 |
| Diagnostics and repair information | 652.0 | 619.8 | 613.7 |
| Equipment | 661.2 | 588.7 | 573.2 |
| | $ 3,056.5 | $ 2,937.9 | $ 2,854.2 |

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

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

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

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

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

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

***Financial Services***

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

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*United States*

In the United States, Snap-on offers financing through SOC and provides financing for the majority of new contracts originated by SOC. Financing revenue from contract originations owned by SOC is recognized by SOC over the life of the contracts, with interest computed on the average daily balances of the underlying contracts.

*International*

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

***Other***

Franchise fee revenue, including nominal, non-refundable initial and ongoing monthly fees (primarily for sales and business training, and marketing and product promotion programs), is recognized as the fees are earned. Franchise fee revenue totaled $11.9 million, $9.9 million and $8.8 million in fiscal 2013, 2012 and 2011, respectively.

**Sales and Distribution**

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

*Vehicle Service and Repair Sector*

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

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

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

*Industrial Sector*

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

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

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

**Distribution Channels**

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

*Mobile Van Channel*

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

Snap-on also provides certain franchisees the opportunity to add vans to their franchise or to add a limited number of additional franchises. Snap-on charges nominal initial and ongoing monthly franchise fees. Since 1991, written franchise agreements have been entered into with all new U.S. franchisees and most pre-1991 independent franchisees. As of 2013 year end there were 3,237 vans operated by U.S. franchisees as compared with 3,209 vans as of 2012 year end.

Snap-on previously offered an option termed the Gateway Franchise Program to certain potential U.S. franchisees, including those that did not meet the standard franchise qualification requirements. Gateway Franchise Program participants had less upfront investment and were provided an initial base level of consigned inventory from Snap-on to assist them in gaining experience and building equity toward the future purchase of a standard franchise. Snap-on ceased offering new Gateway franchises in February 2013; all current Gateway franchises will either convert to a standard franchise or terminate their franchise by the end of February 2015. As of 2013 year end, approximately 80 of Snap-on s vans operated by U.S. franchisees were Gateway Franchise Program franchisees.

In addition to its mobile van channel in the United States, Snap-on has replicated its U.S. franchise van distribution model in certain other countries including Australia, Canada, Germany, Japan, the United Kingdom, the Netherlands, South Africa, New Zealand, Belgium and Ireland. In many of these markets, as in the United States, purchase decisions are generally made or influenced by professional vehicle service technicians as well as repair shop owners and managers. As of 2013 year end, Snap-on s worldwide mobile van count was approximately 4,800, including approximately 3,500 vans in the United States.

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

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

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

Snap-on also has a company-owned van program in the United States that is designed to: (i) provide another pool of potential franchisees and field organization personnel; (ii) service customers in select new and/or open routes not currently serviced by franchisees; and (iii) allow Snap-on to pilot new sales and promotional ideas prior to introducing them to franchisees. As of 2013 year end, company-owned vans comprised approximately 5% of the total U.S. van population; Snap-on may elect to increase or reduce the number of company-owned vans in the future.

*Company Direct Sales*

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

Snap-on brand tools and equipment are marketed to industrial and governmental customers in the United States through both industrial sales representatives, who are employees, and independent industrial distributors. Outside of the United States, industrial sales are also conducted through other independent distributors. Sales representatives focus on industrial customers whose main purchase criteria are quality and service. As of 2013 year end, Snap-on had industrial sales representatives in the United States (including Puerto Rico), Australia, Canada, Japan, Mexico and various European, Asian, Latin American and Middle Eastern countries, with the United States representing the majority of Snap-on s total industrial sales.

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

*Distributors*

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

*E-commerce*

Snap-on s e-commerce development initiatives allow Snap-on to combine the capabilities of the internet with Snap-on s existing brand sales and distribution strengths to reach new and under-served customer segments. Snap-on offers current and prospective customers online, around-the-clock access to research and purchase products through its public internet website at www.snapon.com. The site features an online catalog of Snap-on hand tools, power tools, tool storage units and diagnostic equipment available to customers in the United States, the United Kingdom, Canada and Australia. E-commerce and certain other system enhancement initiatives are designed to improve productivity and further leverage the one-on-one relationships and service Snap-on has with its current and prospective customers. Sales through the company s e-commerce distribution channel were not significant in any of the last three years.

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**Competition**

Snap-on competes on the basis of its product quality and performance, product line breadth and depth, service, brand awareness and imagery, technological innovation and availability of financing (through SOC or its international finance subsidiaries). While Snap-on does not believe that any single company competes with it across all of its product lines and distribution channels, various companies compete in one or more product categories and/or distribution channels.

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

**Raw Materials and Purchased Product**

Snap-on s supply of raw materials and purchased components are generally and readily available from numerous suppliers. Snap-on believes it has secured an ample supply of both bar and coil steel for the near future to ensure stable supply to meet material demands. The company does not currently anticipate experiencing any significant impact in 2014 from steel pricing or availability issues.

**Patents, Trademarks and Other Intellectual Property**

Snap-on vigorously pursues and relies on patent protection to protect its intellectual property and position in its markets. As of 2013 year end, Snap-on and its subsidiaries held over 700 active and pending patents in the United States and approximately 1,500 active and pending patents outside of the United States. Sales relating to any single patent did not represent a material portion of Snap-on s revenues in any of the last three years.

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

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

Trademarks used by Snap-on are of continuing importance to Snap-on in the marketplace. Trademarks have been registered in the United States and more than 120 other countries, and additional applications for trademark registrations are pending. Snap-on vigorously polices proper use of its trademarks. Snap-on s right to manufacture and sell certain products is dependent upon licenses from others; however, these products under license do not represent a material portion of Snap-on s net sales.

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

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

**Environmental**

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

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

**Employees**

Snap-on employed approximately 11,300 people at the end of January 2014; Snap-on employed approximately 11,200 people at the end of January 2013.

Approximately 2,600 employees, or 23% of Snap-on s worldwide workforce, are represented by unions and/or covered under collective bargaining agreements. The number of covered union employees whose contracts expire within the next five years approximates 1,200 employees in 2014 and 1,050 employees in 2015. There are no contracts currently scheduled to expire in 2016, 2017 or 2018. In recent years, Snap-on has not experienced any significant work slow-downs, stoppages or other labor disruptions.

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

**Working Capital**

Most of Snap-on s businesses are not seasonal and their inventory needs are relatively constant. Snap-on did not have a significant backlog of orders at 2013 year end. In recent years, Snap-on has been using its working capital to fund, in part, the continued growth of the company s financial services portfolio.

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

As of 2013 year end, neither Snap-on nor any of its segments depend on any single customer, small group of customers or government for any material part of its revenues.

**Item 1A: Risk Factors**

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

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*Economic conditions and world events could affect our operating results.*

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

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

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

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

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

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

Approximately 42% of our 2013 revenues were generated by the Snap-on Tools Group, which consists of Snap-on s business operations serving the worldwide van channel. Except in limited circumstances, each of our mobile tool vans is operated by a franchisee pursuant to a franchise agreement. Snap-on s success is dependent on its relationships with franchisees, individually and collectively, as they are the primary sales and service link between the company and vehicle service and repair technicians, who are an important class of end users for Snap-on s products and services. If our franchisees are not successful, or if we do not maintain an effective relationship with our franchisees, the delivery of products, the collection of receivables and/or our relationship with end users could be adversely affected and thereby negatively impact our business, financial condition, results of operations and cash flows.

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

*New and stricter legislation and regulations may affect our business, results of operations and financial condition.*

Increased legislative and regulatory activity and burdens, and a more stringent manner in which they are applied (particularly in the United States), could significantly impact our business and the economy as a whole. For example, the Affordable Care Act (the ACA ), which was adopted in 2010 and is being phased in over several years, significantly affects the provision of both health care services and benefits in the United States; the ACA may impact our cost of providing our employees and retirees with health insurance and/or benefits, and may also impact various other aspects of our business. The ACA did not have a material impact on our fiscal 2013, 2012 or 2011 financial results; however, we are continuing to assess the impact of the ACA on our health care benefit costs. Also, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act ) may affect, among other matters, the costs related to corporate governance, sourcing compliance, disclosures and general securities law compliance. The Dodd-Frank Act did not have a material impact on our fiscal 2013, 2012 or 2011 financial results.

Financial services businesses of all kinds are subject to increasing regulation and enforcement, including as a result of the Dodd-Frank Act. In addition to potentially increasing the costs of doing business due to compliance obligations, new laws and regulations, or changes to existing laws and regulations, as well as the enforcement thereof, may affect the relationships between creditors and debtors, inhibit the rights of creditors to collect amounts owed to them, expand liability for certain actions or inactions, or limit the types of financial products or services offered, any or all of which could have a material adverse effect on our financial condition, results of operations and cash flows. Failure to comply with any of these laws or regulations could also result in penalties and damage to our reputation, and/or the incurrence of remediation costs.

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

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

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

*Uncertainty and adverse developments in the credit and financial markets could negatively impact the availability of credit that we and our customers need to operate our businesses.*

We depend upon the availability of credit to operate our business, including the financing of receivables from end-user customers that are originated by our financial services businesses. Our end-user customers, franchisees and suppliers also require access to credit for their businesses. At times in recent years, world financial markets have been unstable and subject to uncertainty. Uncertainty and adverse developments in the credit and financial markets, or adverse changes in Snap-on s credit rating, could negatively 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 or capital markets, or a deterioration in the terms on which financing might be available, could have an adverse impact on our business, financial condition, results of operations and cash flows.

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*Increasing our financial leverage could affect our operations and profitability.*

In fiscal 2013, we increased the maximum available credit under our multi-currency revolving credit facility from $500 million to $700 million. Also in fiscal 2013, our former 364-day loan and servicing agreement, which allowed us to borrow up to $200 million through the pledging of finance receivables under an asset-backed commercial paper conduit facility, expired at the end of its term on September 27, 2013, and was not renewed. The company s leverage ratio may affect both our availability of additional capital resources as well as our operations in several ways, including:

- The terms on which credit may be available to us could be less attractive, both in the economic terms of the credit and the covenants stipulated by the credit terms;
- The possible lack of availability of additional credit;
- The potential of higher levels of interest expense to service or maintain our 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.

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

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

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

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

Our pension plan obligations are affected by changes in market interest rates. Significant fluctuations in market interest rates have added, and may further add, volatility to our pension plan obligations. In periods of declining market interest rates, our pension plan obligations generally increase; in periods of increasing market interest rates, our pension plan obligations generally decrease. While our plan assets are broadly diversified, there are inherent market risks associated with investments; if adverse market conditions occur, our plan assets could incur significant or material losses. Since we may need to make additional contributions to address changes 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.

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The company s pension plan expense is comprised of the following factors: (i) service cost; (ii) interest on projected benefit obligations; (iii) the expected return on plan assets; (iv) the amortization of prior service costs and credits; (v) the effects of actuarial gains and losses; and (vi) settlement/curtailment costs, when applicable. The accounting for pensions involves the estimation of a number of factors that are highly uncertain. Certain factors, such as the interest on projected benefit obligations and the expected return on pension 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 pension 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.

*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 the future, intended to improve customer service and drive further efficiencies and reduce costs, some of which could be disruptive to our business. These actions, collectively across our operating groups, are focused on the following:

- Continuing to invest in initiatives focused on building a strong sales and operating presence in emerging growth markets;
- Continuing to enhance service and value to our franchisees and customers;
- Continuing to implement efficiency and productivity initiatives 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, receivables within our financial services businesses.

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

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

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

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

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

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

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

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

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

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

The products that we design and/or manufacture, and/or the services we provide, can lead to product liability claims or other legal claims being filed against us. To the extent that plaintiffs are successful in showing either that defects in the design or manufacture of our products led to personal injury or property damage, or that our provision of services resulted in similar injury or 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.

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

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

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

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

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

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

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

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

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

Approximately 36% of our revenues in 2013 were generated outside of the United States. Future growth rates and success of our business depends in large part on continued growth in our non-U.S. operations, including growth in emerging markets and critical industries. Numerous risks and uncertainties affect our non-U.S. operations. These risks and uncertainties include political, economic and social instability, such as acts of war, civil disturbance or acts of terrorism, local labor conditions, changes in government policies and regulations, including imposition or increases in withholding and other taxes on remittances and other payments by international subsidiaries, currency instability, transportation delays or interruptions, sovereign debt uncertainties and difficulties in enforcement of contract and intellectual property rights, as well as natural disasters. Should the economic environment in our non-U.S. markets deteriorate from current levels, our results of operations and financial position could be materially impacted, including as a result of the effects of potential impairment write-downs of goodwill and/or other intangible assets related to these businesses.

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

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

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

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

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

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

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

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

Pursuant to the Dodd-Frank Act and SEC rules related thereto, public companies are required to disclose the use of tin, tantalum, tungsten and gold (collectively, conflict minerals ) mined from the Democratic Republic of the Congo and adjoining countries (the covered countries ) if a conflict mineral(s) is necessary to the functionality of a product manufactured, or contracted to be manufactured, by the company; the initial disclosure is due May 2014. The rules require us to perform a reasonable inquiry into the country of origin of any conflict minerals in our products to determine if those conflict minerals may have originated from a covered country.

We may determine, as part of these inquiries, that certain products or components we obtain from our suppliers contain conflict minerals. Because our global supply chain is complex, can have multiple layers, and some layers may change without our knowledge, we may not, as a result of our efforts, be able to (i) conclude that all our products are free from conflict minerals that may have originated in the covered countries; or (ii) verify the origins of the relevant minerals used in our products, which, in either event, could lead to the need for additional due diligence procedures or investigations as well as additional expense. If we are unable to conclude that all our products are free from conflict minerals originating from covered countries, this could have a negative impact on our business or reputation. We may also encounter challenges to satisfy customers who require that our products be certified as conflict free, which could place us at a competitive disadvantage if we are unable to substantiate such a claim. Implementation of the rules could also affect the sourcing and availability of some of the minerals used in the manufacture of products or components we obtain from our suppliers, including our ability to obtain products or components in sufficient quantities and/or at competitive prices.

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

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

Certain stock-based compensation awards granted by the company are subject to mark-to-market accounting treatment, which requires us to recognize changes in the fair value of these awards each period based on the company s period-end stock price. Volatility in the company s stock price, including as a result of macro-economic conditions and other factors beyond our control, could increase or decrease this expense in future periods. While we have entered into prepaid equity forward transactions to manage a portion of the market risk associated with stock-based deferred compensation liabilities, depending on changes in the company s period-end stock price, the application of mark-to-market accounting on certain of our other stock-based compensation awards and stock-based deferred compensation liabilities could have an adverse effect, or favorable benefit, on our financial condition and results of operations in certain periods.

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

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

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

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

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

**Item 1B: Unresolved Staff Comments**

None.

**Item 2: Properties**

Snap-on maintains leased and owned manufacturing (including software products), warehouse, distribution, research and development and office facilities throughout the world. Snap-on believes that its facilities currently in use are suitable and have adequate capacity to meet its present and foreseeable future demand. Snap-on s facilities in the United States occupy approximately 3.3 million square feet, of which 76% 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 our corporate headquarters and financial services operations, and each of Snap-on s principal active manufacturing locations and distribution centers (exceeding 50,000 square feet) as of 2013 year end:

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

* Segment abbreviations:

C&I Commercial & Industrial Group

SOT Snap-on Tools Group

RS&I Repair Systems & Information Group

FS Financial Services

In 2013, Snap-on exited its leased distribution facility in Sandviken, Sweden, and consolidated its European-based hand tools distribution operations in its facility in Helmond, the Netherlands.

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**Item 3: Legal Proceedings**

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

**Item 4: Mine Safety Disclosures**

Not applicable.

**PART II**

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

Snap-on had 58,115,776 shares of common stock outstanding as of 2013 year end. Snap-on s stock is listed on the New York Stock Exchange under the ticker symbol SNA. At February 7, 2014, there were 5,678 registered holders of Snap-on common stock.

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

Common Stock High/Low Prices

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Quarter | High | Low | High | Low |
| First | $ 82.70 | $ 77.06 | $ 62.18 | $ 51.12 |
| Second | 92.92 | 80.88 | 64.24 | 57.63 |
| Third | 100.98 | 90.50 | 73.43 | 59.90 |
| Fourth | 108.88 | 95.63 | 80.03 | 71.28 |

Snap-on has paid consecutive quarterly cash dividends, without interruption or reduction, since 1939. Quarterly dividends in 2013 were $0.44 per share in the fourth quarter and $0.38 per share in each of the first three quarters ($1.58 per share for the year). Quarterly dividends in 2012 were $0.38 per share in the fourth quarter and $0.34 per share in each of the first three quarters ($1.40 per share for the year). Quarterly dividends in 2011 were $0.34 per share in the fourth quarter and $0.32 per share in each of the first three quarters ($1.30 per share for the year). Cash dividends paid in 2013, 2012 and 2011 totaled $92.0 million, $81.5 million and $76.7 million, respectively. Snap-on s Board of Directors (the Board ) monitors and evaluates the company s dividend practice quarterly and the Board may elect to increase, decrease or not pay a dividend on Snap-on common stock based upon the company s financial condition, results of operations, cash requirements and future prospects of Snap-on and other factors deemed relevant by the Board.

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

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**Issuer Purchases of Equity Securities**

The following chart discloses information regarding the shares of Snap-on s common stock repurchased by the company during the fourth quarter of fiscal 2013, all of which were purchased pursuant to the Board s authorizations that the company has publicly announced. Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and franchisee stock purchase plans, stock options and other corporate purposes, as well as to repurchase shares when the company believes market conditions are favorable. The repurchase of Snap-on common stock is at the company s discretion, subject to prevailing financial and market conditions.

| Period | Shares purchased | Average price per share | Shares purchased as part of publicly announced plans or programs | Approximate value of shares that may yet be purchased under publicly announced plans or programs * |
|---|---|---|---|---|
| 09/29/13 to 10/26/13 | | | | $ 191.1 million |
| 10/27/13 to 11/23/13 | 88,100 | $ 104.43 | 88,100 | $ 186.0 million |
| 11/24/13 to 12/28/13 | 55,900 | $ 105.43 | 55,900 | $ 191.7 million |
| Total/Average | 144,000 | $ 104.82 | 144,000 | N/A |

* Subject to further adjustment pursuant to the 1996 Authorization described below, as of December 28, 2013, the approximate value of shares that may yet be purchased pursuant to the three outstanding Board authorizations discussed below is $191.7 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 $102.09, $106.24 and $108.27 per share of common stock as of the end of the fiscal 2013 months ended October 26, 2013, November 23, 2013, and December 28, 2013, 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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Other Purchases or Sales of Equity Securities

The following chart discloses information regarding shares of Snap-on s common stock that were sold by Citibank, N.A. ( Citibank ) during the fourth quarter of 2013 pursuant to a prepaid equity forward transaction agreement (the Agreement ) with Citibank that is intended to reduce the impact of market risk associated with the stock-based portion of the company s deferred compensation plans. The company s stock-based deferred compensation liabilities, which are impacted by changes in the company s stock price, increase as the company s stock price rises and decrease as the company s stock price declines. Pursuant to the Agreement, Citibank may purchase or sell shares of the company s common stock (for Citibank s account) in the market or in privately negotiated transactions. The Agreement has no stated expiration date, but the parties expect that each transaction under the Agreement will have a term of approximately one year. The Agreement does not provide for Snap-on to purchase or repurchase shares.

The following chart discloses information regarding Citibank s sales of Snap-on common stock during the fourth quarter of 2013 pursuant to the Agreement:

| Period | Shares sold | Average price per share |
|---|---|---|
| 09/29/13 to 10/26/13 | | |
| 10/27/13 to 11/23/13 | | |
| 11/24/13 to 12/28/13 | 5,000 | $ 106.32 |
| Total/Average | 5,000 | $ 106.32 |

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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, 2008, 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, 2008 | $ 100.00 | $ 100.00 | $ 100.00 |
| December 31, 2009 | 111.40 | 127.17 | 126.46 |
| December 31, 2010 | 153.24 | 169.36 | 145.51 |
| December 31, 2011 | 140.40 | 165.85 | 148.59 |
| December 31, 2012 | 223.82 | 195.02 | 172.37 |
| December 31, 2013 | 315.72 | 265.68 | 228.19 |

(1) Assumes $100 was invested on December 31, 2008, and that dividends were reinvested quarterly.

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

(3) The Peer Group consists of: Stanley Black & Decker, Inc., Danaher Corporation, Emerson Electric Co., Genuine Parts Company, Newell Rubbermaid Inc., Pentair Ltd., SPX Corporation and W.W. Grainger, Inc.

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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)* | 2013 | 2012 | 2011 | 2010 | 2009 |
| **Results of Operations** | | | | | |
| Net sales | $ 3,056.5 | $ 2,937.9 | $ 2,854.2 | $ 2,619.2 | $ 2,362.5 |
| Gross profit | 1,472.9 | 1,390.0 | 1,337.9 | 1,211.1 | 1,057.6 |
| Operating expenses | 1,012.4 | 980.3 | 953.7 | 894.1 | 824.4 |
| Operating earnings before financial services | 460.5 | 409.7 | 384.2 | 317.0 | 233.2 |
| Financial services revenue | 181.0 | 161.3 | 124.3 | 62.3 | 58.3 |
| Financial services expenses | 55.3 | 54.6 | 51.4 | 47.9 | 40.8 |
| Financial services arbitration settlement gain | | | 18.0 | | |
| Operating earnings from financial services | 125.7 | 106.7 | 90.9 | 14.4 | 17.5 |
| Operating earnings | 586.2 | 516.4 | 475.1 | 331.4 | 250.7 |
| Interest expense | 56.1 | 55.8 | 61.2 | 54.8 | 47.7 |
| Earnings before income taxes and equity earnings | 526.2 | 460.2 | 412.9 | 277.4 | 205.3 |
| Income tax expense | 166.7 | 148.2 | 133.7 | 87.6 | 62.7 |
| Earnings before equity earnings | 359.5 | 312.0 | 279.2 | 189.8 | 142.6 |
| Equity earnings, net of tax | 0.2 | 2.6 | 4.6 | 3.2 | 1.1 |
| Net earnings | 359.7 | 314.6 | 283.8 | 193.0 | 143.7 |
| Net earnings attributable to noncontrolling interests | (9.4) | (8.5) | (7.5) | (6.5) | (9.5) |
| Net earnings attributable to Snap-on | 350.3 | 306.1 | 276.3 | 186.5 | 134.2 |
| **Financial Position** | | | | | |
| Cash and cash equivalents | $ 217.6 | $ 214.5 | $ 185.6 | $ 572.2 | $ 699.4 |
| Trade and other accounts receivable net | 531.6 | 497.9 | 463.5 | 443.3 | 414.4 |
| Finance receivables net (current) | 374.6 | 323.1 | 277.2 | 215.3 | 122.3 |
| Contract receivables net (current) | 68.4 | 62.7 | 49.7 | 45.6 | 32.9 |
| Inventories net | 434.4 | 404.2 | 386.4 | 329.4 | 274.7 |
| Property and equipment net | 392.5 | 375.2 | 352.9 | 344.0 | 347.8 |
| Long-term finance receivables net | 560.6 | 494.6 | 431.8 | 345.7 | 177.9 |
| Long-term contract receivables net | 217.1 | 194.4 | 165.1 | 119.3 | 70.7 |
| Total assets | 4,110.0 | 3,902.3 | 3,672.9 | 3,729.4 | 3,447.4 |
| Notes payable and current maturities of long-term debt | 113.1 | 5.2 | 16.2 | 216.0 | 164.7 |
| Accounts payable | 155.6 | 142.5 | 124.6 | 146.1 | 119.8 |
| Long-term debt | 858.9 | 970.4 | 967.9 | 954.8 | 902.1 |
| Total debt | 972.0 | 975.6 | 984.1 | 1,170.8 | 1,066.8 |
| Total shareholders equity attributable to Snap-on | 2,113.2 | 1,802.1 | 1,530.9 | 1,388.5 | 1,290.0 |
| **Common Share Summary** | | | | | |
| Weighted-average shares outstanding diluted | 59.1 | 58.9 | 58.7 | 58.4 | 57.9 |
| Net earnings per share attributable to Snap-on: | | | | | |
| Basic | $ 6.02 | $ 5.26 | $ 4.75 | $ 3.22 | $ 2.33 |
| Diluted | 5.93 | 5.20 | 4.71 | 3.19 | 2.32 |

| | | | | | |
|---|---|---|---|---|---|
| Cash dividends paid per share | 1.58 | 1.40 | 1.30 | 1.22 | 1.20 |
| Shareholders equity per basic share | 36.31 | 30.96 | 26.30 | 23.94 | 22.36 |

Snap-on terminated its financial services joint venture operating agreement with CIT Group Inc. ( CIT ) in July 2009 and subsequently purchased CIT s 50%-ownership interest in SOC. Since that time, Snap-on has been providing financing for the majority of new contracts originated by SOC; these contracts 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.

In 2011, Snap-on settled a dispute related to its former financial services joint venture with CIT and recorded an $18.0 million pretax arbitration settlement gain ($11.1 million after tax or $0.19 per diluted share).

**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 2013 or 2013 refer to the fiscal year ended December 28, 2013; references to fiscal 2012 or 2012 refer to the fiscal year ended December 29 2012; and references to fiscal 2011 or 2011 refer to the fiscal year ended December 31, 2011. References in this document to 2013, 2012 and 2011 year end refer to December 28, 2013, December 29, 2012, and December 31, 2011, respectively.

We believe our 2013 operating performance evidences significant and continued progress on our strategic priorities and ongoing benefits from our Snap-on Value Creation Processes - a set of strategic principles and processes designed to create value and employed in the areas of (i) safety; (ii) quality; (iii) customer connection; (iv) innovation; and (v) rapid continuous improvement. Further progress was made in 2013 in strengthening our business model, pursuing geographic and customer diversification and expanding our presence in emerging markets and critical industries. In 2013, we continued to invest in our most important strategic growth initiatives aimed at enhancing the franchisee network, expanding in the vehicle repair garage, extending in critical industries and building in emerging markets. One example of our continued investment and expansion initiatives was the May 2013 acquisition of Challenger Lifts, Inc. ( Challenger ), which increased our existing undercar equipment offering, broadened our established capabilities in serving vehicle repair facilities and expanded our presence with repair shop owners and managers. Leveraging capabilities already demonstrated in the automotive repair arena, our coherent growth strategy focuses on developing and expanding our professional customer base in adjacent markets, additional geographies and other areas, including in critical industries, where the cost and penalties for failure can be high.

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

**Consolidated** net sales of $3,056.5 million in 2013 increased $118.6 million, or 4.0%, from 2012 levels, including $39.3 million of sales from Challenger and an unfavorable $21.6 million impact from foreign currency translation. Organic sales (excluding acquisition-related sales and foreign currency translation impacts) increased $100.9 million or 3.5%. Operating earnings before financial services of $460.5 million in 2013 were up $50.8 million, or 12.4%, from 2012 levels, reflecting contributions from higher sales and improved operating margins, including contributions from ongoing efficiency and productivity initiatives, as well as benefits from restructuring actions (collectively, Rapid Continuous Improvement or RCI initiatives ). Operating earnings of $586.2 million in 2013 increased $69.8 million, or 13.5%, from operating earnings of $516.4 million last year. In 2013, net earnings attributable to Snap-on Incorporated were $350.3 million or $5.93 per diluted share. Net earnings attributable to Snap-on Incorporated in 2012 were $306.1 million or $5.20 per diluted share.

In the **Commercial & Industrial Group**, segment net sales of $1,091.0 million in 2013 decreased $34.9 million from 2012 levels. Excluding $9.8 million of unfavorable foreign currency translation, organic sales in 2013 decreased $25.1 million, or 2.2%, primarily due to lower sales to the military and in the segment s European-based hand tools business. Operating earnings of $137.3 million in 2013 increased $10.0 million, or 7.9%, from 2012 levels primarily due to continued savings from RCI initiatives, particularly in Europe, as well as reduced restructuring costs. In 2013 and 2012, the Commercial & Industrial Group incurred $2.9 million and $8.9 million, respectively, of restructuring costs, primarily intended to improve the segment s cost structure in Europe.

The Commercial & Industrial Group intends to build on the following strategic priorities in 2014:

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

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

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In the **Snap-on Tools Group**, segment net sales of $1,358.4 million in 2013 increased $86.4 million, or 6.8%, from 2012 levels; excluding $9.3 million of unfavorable foreign currency translation, organic sales in 2013 increased $95.7 million, or 7.6%, reflecting higher sales in both the company s U.S. and international franchise operations. Operating earnings of $194.6 million in 2013 increased $18.2 million, or 10.3%, from 2012 levels, primarily as a result of higher sales and a $6.7 million decrease in restructuring costs. The Snap-on Tools Group incurred $7.2 million of restructuring costs in 2012, including $6.8 million for the settlement of a pension plan following the closure of the company s former Newmarket, Canada, facility.

The Snap-on Tools Group made continued progress in 2013 on its fundamental, strategic initiatives to strengthen the group and enhance franchisee profitability. In 2014, the Snap-on Tools Group intends to further build on the progress made in 2013, with specific initiatives focused on the following:

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

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

In the **Repair Systems & Information Group**, segment net sales of $1,009.6 million in 2013 increased $92.5 million, or 10.1%, from 2012 levels. Excluding $39.3 million of sales from Challenger and $0.9 million of unfavorable foreign currency translation, organic sales increased $54.1 million or 5.9%. The year-over-year organic sales increase primarily reflects higher sales to original equipment manufacturer ( OEM ) dealership service and repair shops, and increased sales of diagnostic and repair information products to independent repair shop owners and managers. Operating earnings of $231.9 million in 2013 increased $26.2 million, or 12.7%, from 2012 levels, primarily due to higher sales, including sales from Challenger, and savings from ongoing RCI initiatives.

The Repair Systems & Information Group intends to focus on the following strategic priorities in 2014:

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

**Financial Services** revenue was $181.0 million in 2013 and $161.3 million in 2012; originations of $777.7 million in 2013 increased $100.6 million, or 14.9%, from 2012 levels. In recent years, Snap-on has steadily grown its financial services portfolio, providing financing for the majority of new finance and contract receivables originated by both SOC and the company s international finance subsidiaries. In 2013, operating earnings from financial services of $125.7 million increased $19.0 million, or 17.8%, from $106.7 million last year.

Financial Services intends to focus on the following strategic priorities in 2014:

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

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

Maintaining healthy portfolio performance levels.

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

**Cash Flows**

Net cash provided by operating activities was $392.6 million in 2013 as compared to $329.3 million in 2012. The $63.3 million increase in net cash provided by operating activities primarily reflects higher 2013 net earnings and net changes in operating assets and liabilities, including $30.4 million of lower year-over-year discretionary cash contributions to the company s pension plans. In 2013, Snap-on made $24.3 million of discretionary cash contributions to its pension plans; in 2012, Snap-on made $54.7 million of discretionary cash contributions to its pension plans. Net cash provided by operating activities of $128.5 million in 2011 reflected the return of $89.8 million of cash withheld from CIT Group Inc. ( CIT ) following the settlement of a dispute. In 2011, Snap-on recorded an $18.0 million pretax arbitration settlement gain and paid $89.8 million of cash to CIT representing $107.8 million of cash previously withheld net of the $18.0 million settlement. Net cash provided by operating activities in 2011 also reflected the impact of $48.0 million of discretionary cash contributions to the company s pension plans.

Net cash used by investing activities of $250.4 million in 2013 included additions to, and collections of, finance receivables of $651.3 million and $508.8 million, respectively, as well as a $38.2 million use of cash for the May 2013 acquisition of Challenger. Net cash used by investing activities of $173.1 million in 2012 included additions to, and collections of, finance receivables of $569.6 million and $445.5 million, respectively, as well as $27.0 million of proceeds from the sale of a non-strategic equity investment at book value (i.e., no gain or loss on sale). Capital expenditures in 2013 of $70.6 million reflected continued investments related to the company s execution of its Value Creation Processes around safety, quality, customer connection, innovation and rapid continuous improvement. Capital expenditures in 2013 also included continued spending to support the company s strategic growth initiatives.

Net cash used by financing activities of $137.8 million in 2013 included $92.0 million for dividend payments to shareholders and $82.6 million for the repurchase of 926,000 shares of Snap-on s common stock, partially offset by $29.2 million of proceeds from stock purchase and option plan exercises. Net cash used by financing activities of $127.0 million in 2012 included $81.5 million for dividend payments to shareholders and $78.1 million for the repurchase of 1,180,000 shares of Snap-on s common stock, partially offset by $46.8 million of proceeds from stock purchase and option plan exercises. Net cash used by financing activities of $293.7 million in 2011 included the repayment of $200 million of unsecured notes upon maturity with available cash.

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**Results of Operations**

**2013 vs. 2012**

Results of operations for 2013 and 2012 are as follows:

| *(Amounts in millions)* | 2013 | | 2012 | | Change | |
|---|---|---|---|---|---|---|
| Net sales | $ 3,056.5 | 100.0% | $ 2,937.9 | 100.0% | $ 118.6 | 4.0% |
| Cost of goods sold | (1,583.6) | -51.8% | (1,547.9) | -52.7% | (35.7) | -2.3% |
| Gross profit | 1,472.9 | 48.2% | 1,390.0 | 47.3% | 82.9 | 6.0% |
| Operating expenses | (1,012.4) | -33.1% | (980.3) | -33.4% | (32.1) | -3.3% |
| Operating earnings before financial services | 460.5 | 15.1% | 409.7 | 13.9% | 50.8 | 12.4% |
| Financial services revenue | 181.0 | 100.0% | 161.3 | 100.0% | 19.7 | 12.2% |
| Financial services expenses | (55.3) | -30.6% | (54.6) | -33.8% | (0.7) | -1.3% |
| Operating earnings from financial services | 125.7 | 69.4% | 106.7 | 66.2% | 19.0 | 17.8% |
| Operating earnings | 586.2 | 18.1% | 516.4 | 16.7% | 69.8 | 13.5% |
| Interest expense | (56.1) | -1.7% | (55.8) | -1.8% | (0.3) | -0.5% |
| Other income (expense) net | (3.9) | -0.1% | (0.4) | | (3.5) | NM |
| Earnings before income taxes and equity earnings | 526.2 | 16.3% | 460.2 | 14.9% | 66.0 | 14.3% |
| Income tax expense | (166.7) | -5.2% | (148.2) | -4.8% | (18.5) | -12.5% |
| Earnings before equity earnings | 359.5 | 11.1% | 312.0 | 10.1% | 47.5 | 15.2% |
| Equity earnings, net of tax | 0.2 | | 2.6 | 0.1% | (2.4) | -92.3% |
| Net earnings | 359.7 | 11.1% | 314.6 | 10.2% | 45.1 | 14.3% |
| Net earnings attributable to noncontrolling interests | (9.4) | -0.3% | (8.5) | -0.3% | (0.9) | -10.6% |
| Net earnings attributable to Snap-on Inc. | $ 350.3 | 10.8% | $ 306.1 | 9.9% | $ 44.2 | 14.4% |

NM: Not meaningful

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

Net sales of $3,056.5 million in 2013 increased $118.6 million, or 4.0%, from 2012 levels, including $39.3 million of sales from the May 2013 acquisition of Challenger and an unfavorable $21.6 million impact from foreign currency translation. Organic sales in 2013 increased $100.9 million, or 3.5%, from 2012 levels. Snap-on has significant international operations and is subject to risks inherent with foreign operations, including foreign currency translation fluctuations.

Gross profit of $1,472.9 million in 2013 increased $82.9 million as compared to $1,390.0 million last year, and gross margin (gross profit as a percentage of net sales) of 48.2% in 2013 improved 90 basis points (100 basis points equals 1.0 percent) from 47.3% last year. The year-over-year improvement in gross margin primarily reflects benefits from ongoing RCI initiatives and a $6.5 million decrease in restructuring costs. Gross profit in 2013 reflects $4.4 million of restructuring costs; gross profit in 2012 reflects $10.9 million of restructuring costs, including $6.8 million for the settlement of a pension plan following the 2011 closure of the company s former Newmarket, Canada, facility.

Operating expenses of $1,012.4 million in 2013 increased $32.1 million as compared to $980.3 million last year. The operating expense margin (operating expenses as a percentage of net sales) of 33.1% in 2013 improved 30 basis points from 33.4% last year primarily due to benefits from sales volume leverage, savings from ongoing RCI initiatives and a $3.7 million decrease in restructuring costs. Restructuring costs included in operating expenses totaled $1.9 million and $5.6 million in 2013 and 2012, respectively.

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

Operating earnings before financial services of $460.5 million in 2013 increased $50.8 million, or 12.4%, as compared to $409.7 million last year. As a percentage of net sales, operating earnings before financial services of 15.1% improved 120 basis points from 13.9% in 2012.

Financial services operating earnings of $125.7 million on revenue of $181.0 million in 2013 compares with operating earnings of $106.7 million on revenue of $161.3 million last year. The year-over-year increases in both revenue and operating earnings primarily reflect the growth in the company s financial services portfolio.

Full-year 2013 operating earnings of $586.2 million, including $14.2 million of unfavorable foreign currency effects, increased $69.8 million, or 13.5%, as compared with operating earnings of $516.4 million in 2012. As a percentage of revenues (net sales plus financial services revenue), operating earnings of 18.1% in 2013 improved 140 basis points from 16.7% last year.

Interest expense of $56.1 million in 2013 increased $0.3 million from $55.8 million last year. See Note 9 to the Consolidated Financial Statements for information on Snap-on s debt and credit facilities.

Other income (expense) net was expense of $3.9 million in 2013 and $0.4 million in 2012. Other income (expense) net primarily includes hedging and currency exchange rate transaction gains and losses, and interest income. 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 2013 and 32.8% in 2012. See Note 8 to the Consolidated Financial Statements for information on income taxes.

On May 13, 2013, Snap-on acquired 100% of Challenger for a cash purchase price of $38.2 million, including post-closing adjustments. Challenger designs, manufactures and distributes a comprehensive line of vehicle lifts and accessories to a diverse customer base in the automotive repair sector. The acquisition of the Challenger vehicle lift product line complemented and increased Snap-on s existing undercar equipment offering, broadened its established capabilities in serving vehicle repair facilities and expanded the company s presence with repair shop owners and managers. For segment reporting purposes, the results of operations and assets of Challenger have been included in the Repair Systems & Information Group since the date of acquisition. Pro forma financial information has not been presented as the net effects of the Challenger acquisition were neither significant nor material to Snap-on s results of operations or financial position.

Net earnings attributable to Snap-on in 2013 of $350.3 million, or $5.93 per diluted share, increased $44.2 million, or $0.73 per diluted share, from 2012 levels. Net earnings attributable to Snap-on in 2012 were $306.1 million or $5.20 per diluted share.

**Exit and Disposal Activities**

Snap-on recorded costs of $6.4 million for exit and disposal activities in 2013 as compared to $16.5 million of such costs in 2012. See Note 7 to the Consolidated Financial Statements for information on Snap-on s exit and disposal activities.

**Segment Results**

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

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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 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)* | 2013 | | 2012 | | Change | |
|---|---|---|---|---|---|---|
| External net sales | $ 903.0 | 82.8% | $ 940.6 | 83.5% | $ (37.6) | -4.0% |
| Intersegment net sales | 188.0 | 17.2% | 185.3 | 16.5% | 2.7 | 1.5% |
| Segment net sales | 1,091.0 | 100.0% | 1,125.9 | 100.0% | (34.9) | -3.1% |
| Cost of goods sold | (671.5) | -61.5% | (710.9) | -63.1% | 39.4 | 5.5% |
| Gross profit | 419.5 | 38.5% | 415.0 | 36.9% | 4.5 | 1.1% |
| Operating expenses | (282.2) | -25.9% | (287.7) | -25.6% | 5.5 | 1.9% |
| Segment operating earnings | $ 137.3 | 12.6% | $ 127.3 | 11.3% | $ 10.0 | 7.9% |

Segment net sales of $1,091.0 million in 2013 decreased $34.9 million, or 3.1%, from 2012 levels; excluding $9.8 million of unfavorable foreign currency translation, organic sales decreased $25.1 million or 2.2%. The lower year-over-year organic sales primarily reflects a double-digit decline in sales to the military and a low single-digit sales decline in the segment s European-based hand tools business.

Segment gross profit of $419.5 million in 2013 increased $4.5 million from 2012 levels. Gross margin of 38.5% in 2013 improved 160 basis points from 36.9% last year primarily due to savings from ongoing RCI initiatives, particularly in Europe, and a $1.1 million decrease in restructuring costs. Gross profit in 2013 reflects $2.5 million of restructuring costs as compared with $3.6 million of such costs in 2012.

Segment operating expenses of $282.2 million in 2013 decreased $5.5 million from 2012 levels. The operating expense margin of 25.9% in 2013 increased 30 basis points from 25.6% last year primarily as a result of the lower sales, partially offset by a $4.9 million decrease in restructuring costs. Restructuring costs included in operating expenses were $0.4 million and $5.3 million in 2013 and 2012, respectively.

As a result of these factors, segment operating earnings of $137.3 million in 2013 increased $10.0 million, or 7.9%, from 2012 levels, including $8.8 million of unfavorable foreign currency effects. Operating margin (segment operating earnings as a percentage of segment net sales) for the Commercial & Industrial Group of 12.6% in 2013 increased 130 basis points from 11.3% last year.

**Snap-on Tools Group**

| *(Amounts in millions)* | 2013 | | 2012 | | Change | |
|---|---|---|---|---|---|---|
| Segment net sales | $ 1,358.4 | 100.0% | $ 1,272.0 | 100.0% | $ 86.4 | 6.8% |
| Cost of goods sold | (772.6) | -56.9% | (728.9) | -57.3% | (43.7) | -6.0% |
| Gross profit | 585.8 | 43.1% | 543.1 | 42.7% | 42.7 | 7.9% |
| Operating expenses | (391.2) | -28.8% | (366.7) | -28.8% | (24.5) | -6.7% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Segment operating earnings | $ | 194.6 | 14.3% | $ | 176.4 | 13.9% | $ | 18.2 | 10.3% |

Segment net sales of $1,358.4 million in 2013 increased $86.4 million, or 6.8%, from 2012 levels. Excluding $9.3 million of unfavorable foreign currency translation, organic sales increased $95.7 million, or 7.6%, reflecting similar increases in both the company s U.S. and international franchise operations.

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

Segment gross profit of $585.8 million in 2013 increased $42.7 million from 2012 levels. Gross margin of 43.1% in 2013 increased 40 basis points from 42.7% last year primarily due to a $6.9 million decrease in restructuring costs. Gross profit in 2013 reflects $0.2 million of restructuring costs; gross profit in 2012 reflects $7.1 million of such costs, including $6.8 million for the settlement of the Newmarket pension plan.

Segment operating expenses of $391.2 million in 2013 increased $24.5 million from 2012 levels primarily due to higher volume-related and other expenses, including $2.6 million of increased stock-based and mark-to-market costs associated with the company s franchisee stock purchase plan. Restructuring costs included in operating expenses were $0.3 million and $0.1 million in 2013 and 2012, respectively. The operating expense margin of 28.8% in 2013 was unchanged from 2012. See Note 13 to the Consolidated Financial Statements for information on the company s franchisee stock purchase plan.

As a result of these factors, segment operating earnings of $194.6 million in 2013, including $2.7 million of unfavorable foreign currency effects, increased $18.2 million, or 10.3%, from 2012 levels. Operating margin for the Snap-on Tools Group of 14.3% in 2013 improved 40 basis points from 13.9% last year.

**Repair Systems & Information Group**

| *(Amounts in millions)* | 2013 | | 2012 | | Change | |
|---|---|---|---|---|---|---|
| External net sales | $ 795.1 | 78.8% | $ 725.3 | 79.1% | $ 69.8 | 9.6% |
| Intersegment net sales | 214.5 | 21.2% | 191.8 | 20.9% | 22.7 | 11.8% |
| Segment net sales | 1,009.6 | 100.0% | 917.1 | 100.0% | 92.5 | 10.1% |
| Cost of goods sold | (542.0) | -53.7% | (485.2) | -52.9% | (56.8) | -11.7% |
| Gross profit | 467.6 | 46.3% | 431.9 | 47.1% | 35.7 | 8.3% |
| Operating expenses | (235.7) | -23.3% | (226.2) | -24.7% | (9.5) | -4.2% |
| Segment operating earnings | $ 231.9 | 23.0% | $ 205.7 | 22.4% | $ 26.2 | 12.7% |

Segment net sales of $1,009.6 million in 2013 increased $92.5 million, or 10.1%, from 2012 levels. Excluding $39.3 million of sales from the May 2013 acquisition of Challenger and $0.9 million of unfavorable foreign currency translation, organic sales in 2013 increased $54.1 million, or 5.9%, from prior-year levels. The year-over-year organic sales increase primarily reflects a high single-digit gain in sales to OEM dealership service and repair shops, a high single-digit gain in sales of diagnostic and repair information products to independent repair shop owners and managers, as well as a low single-digit increase in sales of undercar equipment.

Segment gross profit of $467.6 million in 2013 increased $35.7 million from 2012 levels. Gross margin in 2013 of 46.3% decreased 80 basis points from 47.1% last year primarily due to a shift in sales mix that included higher volumes of lower gross margin products, including sales of Challenger products. Gross profit in 2013 also reflects $1.7 million of restructuring costs as compared with $0.2 million of such costs last year. These gross margin decreases were partially offset by continued savings from ongoing RCI initiatives.

Segment operating expenses of $235.7 million in 2013 increased $9.5 million from 2012 levels. The operating expense margin of 23.3% in 2013 improved 140 basis points from 24.7% last year primarily due to contributions from sales volume leverage, including the effects from the sales mix shift discussed above, and savings from ongoing RCI initiatives. Restructuring costs included in operating expenses totaled $1.2 million and $0.2 million in 2013 and 2012, respectively.

As a result of these factors, segment operating earnings of $231.9 million in 2013, including $2.2 million of unfavorable foreign currency effects, increased $26.2 million, or 12.7%, from 2012 levels. Operating margin for the Repair Systems & Information Group of 23.0% in 2013 increased 60 basis points from 22.4% last year.

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**Financial Services**

| *(Amounts in millions)* | 2013 | | 2012 | | Change | |
|---|---|---|---|---|---|---|
| Financial services revenue | $ 181.0 | 100.0% | $ 161.3 | 100.0% | $ 19.7 | 12.2% |
| Financial services expenses | (55.3) | -30.6% | (54.6) | -33.8% | (0.7) | -1.3% |
| Segment operating earnings | $ 125.7 | 69.4% | $ 106.7 | 66.2% | $ 19.0 | 17.8% |

Financial services operating earnings of $125.7 million on revenue of $181.0 million in 2013 compares with operating earnings of $106.7 million on revenue of $161.3 million in the prior year. The $19.7 million, or 12.2%, year-over-year increase in financial services revenue primarily reflects $15.4 million of higher revenue as a result of continued growth of the company s financial services portfolio and $3.2 million of increased revenue from higher average yields on finance receivables. In 2013 and 2012, the average yield on finance receivables was 17.4% and 17.2%, respectively, and the average yield on contract receivables was 9.5% in both years. Originations of $777.7 million in 2013 increased $100.6 million, or 14.9%, from 2012 levels.

Financial services expenses of $55.3 million and $54.6 million in 2013 and 2012, respectively, primarily include personnel-related and other general and administrative costs, as well as doubtful accounts provisions. These expenses are generally more dependent on changes in the size of the financial services portfolio than they are on the revenue of the segment. As a percentage of the average financial services portfolio, financial services expenses were 4.7% and 5.1% in 2013 and 2012, respectively.

See Note 1 to the Consolidated Financial Statements for further information on financial services.

**Corporate**

Snap-on s general corporate expenses of $103.3 million in 2013 increased $3.6 million over 2012 levels.

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

**Fourth Quarter**

Results of operations for the fourth quarters of 2013 and 2012 are as follows:

| | Fourth Quarter | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | 2013 | | 2012 | | Change | |
| Net sales | $ 797.5 | 100.0% | $ 753.2 | 100.0% | $ 44.3 | 5.9% |
| Cost of goods sold | (419.0) | -52.5% | (401.2) | -53.3% | (17.8) | -4.4% |
| Gross profit | 378.5 | 47.5% | 352.0 | 46.7% | 26.5 | 7.5% |
| Operating expenses | (254.9) | -32.0% | (240.6) | -31.9% | (14.3) | -5.9% |
| Operating earnings before financial services | 123.6 | 15.5% | 111.4 | 14.8% | 12.2 | 11.0% |
| Financial services revenue | 47.4 | 100.0% | 42.9 | 100.0% | 4.5 | 10.5% |
| Financial services expenses | (14.4) | -30.4% | (13.6) | -31.7% | (0.8) | -5.9% |
| Operating earnings from financial services | 33.0 | 69.6% | 29.3 | 68.3% | 3.7 | 12.6% |
| Operating earnings | 156.6 | 18.5% | 140.7 | 17.7% | 15.9 | 11.3% |
| Interest expense | (14.3) | -1.7% | (14.4) | -1.8% | 0.1 | 0.7% |
| Other income (expense) net | (0.8) | -0.1% | 0.1 | | (0.9) | NM |
| Earnings before income taxes and equity earnings | 141.5 | 16.7% | 126.4 | 15.9% | 15.1 | 11.9% |
| Income tax expense | (44.6) | -5.2% | (39.8) | -5.0% | (4.8) | -12.1% |
| Earnings before equity earnings | 96.9 | 11.5% | 86.6 | 10.9% | 10.3 | 11.9% |
| Equity earnings, net of tax | | | 0.1 | | (0.1) | -100.0% |
| Net earnings | 96.9 | 11.5% | 86.7 | 10.9% | 10.2 | 11.8% |
| Net earnings attributable to noncontrolling interests | (2.4) | -0.3% | (2.1) | -0.3% | (0.3) | -14.3% |
| Net earnings attributable to Snap-on Inc. | $ 94.5 | 11.2% | $ 84.6 | 10.6% | $ 9.9 | 11.7% |

NM: Not meaningful

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

Net sales of $797.5 million in the fourth quarter of 2013 increased $44.3 million, or 5.9%, from 2012 levels, including $15.2 million of sales from Challenger and an unfavorable $5.3 million impact from foreign currency translation. Organic sales in the fourth quarter of 2013 increased $34.4 million, or 4.6%, from 2012 levels. Snap-on has significant international operations and is subject to certain risks inherent with foreign operations, including foreign currency translation fluctuations.

Gross profit of $378.5 million in the fourth quarter of 2013 increased $26.5 million as compared to $352.0 million last year. Gross margin of 47.5% in the fourth quarter of 2013 improved 80 basis points from 46.7% last year primarily due to savings from ongoing RCI initiatives. No restructuring costs were reflected in gross profit in the fourth quarters of 2013 or 2012.

Operating expenses of $254.9 million in the fourth quarter of 2013 increased $14.3 million as compared to $240.6 million last year. The operating expense margin of 32.0% in the fourth quarter of 2013 increased 10 basis points from 31.9% last year. No restructuring costs were included in operating expenses in the fourth quarters of 2013 or 2012.

Operating earnings before financial services of $123.6 million in the fourth quarter of 2013 increased $12.2 million, or 11.0%, as compared to $111.4 million last year. As a percentage of net sales, operating earnings before financial services of 15.5% in the quarter increased 70 basis points from 14.8% last year.

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Financial services operating earnings of $33.0 million on revenue of $47.4 million in the fourth quarter of 2013 compares with operating earnings of $29.3 million on revenue of $42.9 million last year. The year-over-year increases in both revenue and operating earnings primarily reflect the growth in the company s financial services portfolio.

Fourth-quarter 2013 operating earnings of $156.6 million, including $6.0 million of unfavorable foreign currency effects, increased $15.9 million, or 11.3%, as compared with operating earnings of $140.7 million last year. As a percentage of revenues, operating earnings of 18.5% in the fourth quarter of 2013 improved 80 basis points from 17.7% last year.

Interest expense of $14.3 million in the fourth quarter of 2013 compared with interest expense of $14.4 million last year. See Note 9 to the Consolidated Financial Statements for information on Snap-on s debt and credit facilities.

Other income (expense) net was expense of $0.8 million in the fourth quarter of 2013 as compared to income of $0.1 million last year. See Note 16 to the Consolidated Financial Statements for information on other income (expense) net.

Snap-on s effective income tax rate on earnings attributable to Snap-on was 32.1% in the fourth quarter of 2013 and 32.0% in the fourth quarter of 2012. See Note 8 to the Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on of $94.5 million, or $1.60 per diluted share, in the fourth quarter of 2013 increased $9.9 million, or $0.17 per diluted share, from 2012 levels. Net earnings attributable to Snap-on in the fourth quarter of 2012 were $84.6 million or $1.43 per diluted share.

**Segment Results**

**Commercial & Industrial Group**

| | Fourth Quarter | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | 2013 | | 2012 | | Change | |
| External net sales | $ 231.6 | 81.8% | $ 236.8 | 85.9% | $ (5.2) | -2.2% |
| Intersegment net sales | 51.6 | 18.2% | 38.8 | 14.1% | 12.8 | 33.0% |
| Segment net sales | 283.2 | 100.0% | 275.6 | 100.0% | 7.6 | 2.8% |
| Cost of goods sold | (172.9) | -61.1% | (170.6) | -61.9% | (2.3) | -1.3% |
| Gross profit | 110.3 | 38.9% | 105.0 | 38.1% | 5.3 | 5.0% |
| Operating expenses | (73.2) | -25.8% | (73.1) | -26.5% | (0.1) | -0.1% |
| Segment operating earnings | $ 37.1 | 13.1% | $ 31.9 | 11.6% | $ 5.2 | 16.3% |

Segment net sales of $283.2 million in the fourth quarter of 2013 increased $7.6 million, or 2.8%, from 2012 levels; excluding $2.8 million of unfavorable currency translation, organic sales increased $10.4 million or 3.8%. The year-over-year organic sales increase is primarily due to a high single-digit sales gain in the segment s European-based hand tools business along with a double-digit increase in sales of power tools. These year-over-year sales gains were partially offset by a double-digit decline in sales to the military.

Segment gross profit of $110.3 million in the fourth quarter of 2013 increased $5.3 million from 2012 levels. Gross margin of 38.9% in the quarter improved 80 basis points from 38.1% last year primarily due to savings from ongoing RCI initiatives, particularly in Europe.

Segment operating expenses of $73.2 million in the fourth quarter of 2013 increased $0.1 million from 2012 levels. The operating expense margin of 25.8% in the quarter improved 70 basis points from 26.5% last year primarily due to benefits from sales volume leverage.

As a result of these factors, segment operating earnings of $37.1 million in the fourth quarter of 2013, including $3.5 million of unfavorable foreign currency effects, increased $5.2 million, or 16.3%, from 2012 levels. Operating margin for the Commercial & Industrial Group of 13.1% in the fourth quarter of 2013 improved 150 basis points from 11.6% last year.

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

**Snap-on Tools Group**

| | Fourth Quarter | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | 2013 | | 2012 | | Change | |
| Segment net sales | $ 351.1 | 100.0% | $ 321.6 | 100.0% | $ 29.5 | 9.2% |
| Cost of goods sold | (204.9) | -58.4% | (185.8) | -57.8% | (19.1) | -10.3% |
| Gross profit | 146.2 | 41.6% | 135.8 | 42.2% | 10.4 | 7.7% |
| Operating expenses | (95.2) | -27.1% | (90.2) | -28.0% | (5.0) | -5.5% |
| Segment operating earnings | $ 51.0 | 14.5% | $ 45.6 | 14.2% | $ 5.4 | 11.8% |

Segment net sales of $351.1 million in the fourth quarter of 2013 increased $29.5 million, or 9.2%, from 2012 levels. Excluding $2.9 million of unfavorable foreign currency translation, organic sales increased $32.4 million, or 10.2%, reflecting a double-digit sales increase in the company s U.S. franchise operations and a mid single-digit sales gain in the company s international franchise operations.

Segment gross profit of $146.2 million in the fourth quarter of 2013 increased $10.4 million from 2012 levels. Gross margin of 41.6% in the quarter decreased 60 basis points from 42.2% last year largely as a result of $2.6 million, or 40 basis points, of unfavorable foreign currency effects.

Segment operating expenses of $95.2 million in the fourth quarter of 2013 increased $5.0 million from 2012 levels primarily due to higher volume-related and other expenses. The operating expense margin of 27.1% in the quarter improved 90 basis points from 28.0% last year primarily due to benefits from sales volume leverage.

As a result of these factors, segment operating earnings of $51.0 million in the fourth quarter of 2013, including $2.0 million of unfavorable foreign currency effects, increased $5.4 million, or 11.8%, from 2012 levels. Operating margin for the Snap-on Tools Group of 14.5% in the fourth quarter of 2013 increased 30 basis points from 14.2% last year.

**Repair Systems & Information Group**

| | Fourth Quarter | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | 2013 | | 2012 | | Change | |
| External net sales | $ 214.8 | 81.2% | $ 194.8 | 80.6% | $ 20.0 | 10.3% |
| Intersegment net sales | 49.8 | 18.8% | 46.8 | 19.4% | 3.0 | 6.4% |
| Segment net sales | 264.6 | 100.0% | 241.6 | 100.0% | 23.0 | 9.5% |
| Cost of goods sold | (142.6) | -53.9% | (130.4) | -54.0% | (12.2) | -9.4% |
| Gross profit | 122.0 | 46.1% | 111.2 | 46.0% | 10.8 | 9.7% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Operating expenses | | (61.2) | -23.1% | | (55.8) | -23.1% | | (5.4) | -9.7% |
| Segment operating earnings | $ | 60.8 | 23.0% | $ | 55.4 | 22.9% | $ | 5.4 | 9.7% |

Segment net sales of $264.6 million in the fourth quarter of 2013 increased $23.0 million, or 9.5%, from 2012 levels. Excluding $15.2 million of sales from Challenger and $0.7 million of favorable foreign currency translation, organic sales in the fourth quarter of 2013 increased $7.1 million, or 2.9%, from prior-year levels. The year-over-year increase in organic sales is primarily driven by a mid single-digit gain in sales of diagnostic and repair information products to repair shop owners and managers, as well as a mid single-digit increase in sales of undercar equipment. These year-over-year sales gains were partially offset by a low single-digit decline in sales to OEM dealership service and repair shops.

Segment gross profit of $122.0 million in the fourth quarter of 2013 increased $10.8 million from 2012 levels. Gross margin of 46.1% in the quarter increased 10 basis points from 46.0% last year primarily due to a shift in sales mix that included increased sales of higher gross margin diagnostic and repair information products, as well as continued savings from ongoing RCI initiatives, partially offset by the impact of lower gross margin Challenger products.

Segment operating expenses of $61.2 million in the fourth quarter of 2013 increased $5.4 million from 2012 levels. The operating expense margin of 23.1% in the quarter was unchanged from the prior year.

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As a result of these factors, segment operating earnings of $60.8 million in the fourth quarter of 2013, including $0.3 million of unfavorable foreign currency effects, increased $5.4 million, or 9.7%, from 2012 levels. Operating margin for the Repair Systems & Information Group of 23.0% in the fourth quarter of 2013 increased 10 basis points from 22.9% last year.

**Financial Services**

| | Fourth Quarter | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | 2013 | | 2012 | | Change | |
| Financial services revenue | $ 47.4 | 100.0% | $ 42.9 | 100.0% | $ 4.5 | 10.5% |
| Financial services expenses | (14.4) | -30.4% | (13.6) | -31.7% | (0.8) | -5.9% |
| Segment operating earnings | $ 33.0 | 69.6% | $ 29.3 | 68.3% | $ 3.7 | 12.6% |

Financial services operating earnings of $33.0 million on revenue of $47.4 million in the fourth quarter of 2013 compares with operating earnings of $29.3 million on revenue of $42.9 million last year. The $4.5 million year-over-year increase in financial services revenue reflects $4.1 million of higher revenue as a result of continued growth of the company s financial services portfolio and $0.4 million of increased revenue from higher average yields on finance receivables. In the fourth quarters of 2013 and 2012, the average yield on finance receivables was 17.4% and 17.2%, respectively, and the average yield on contract receivables was 9.5% in both periods. Originations of $197.6 million in the fourth quarter of 2013 increased $32.0 million, or 19.3%, from comparable prior-year levels.

Financial services expenses of $14.4 million and $13.6 million in the fourth quarters of 2013 and 2012, respectively, primarily include personnel-related and other general and administrative costs, as well as doubtful accounts provisions. These expenses are generally more dependent on changes in the size of the financial services portfolio than they are on the revenue of the segment. As a percentage of the average financial services portfolio, financial services expenses were 1.2% in both the fourth quarters of 2013 and 2012.

See Note 1 to the Consolidated Financial Statements for further information on financial services.

**Corporate**

Snap-on s general corporate expenses of $25.3 million in the fourth quarter of 2013 increased $3.8 million over 2012 levels primarily due to higher performance-based compensation and other expenses.

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

**2012 vs. 2011**

Results of operations for 2012 and 2011 are as follows:

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

NM: Not meaningful

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

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

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

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

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

In May 2011, Snap-on and CIT reached an amicable settlement of their respective claims relating to payments during the course of their SOC financial services joint venture and, in the second quarter of 2011, Snap-on recorded an $18.0 million pretax ($11.1 million after tax, or $0.19 per diluted share) arbitration settlement gain. The $18.0 million arbitration settlement gain is included in Operating earnings from financial services on the accompanying Consolidated Statement of Earnings for 2011.

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

Operating earnings The following non-GAAP financial data is being provided as management believes that the non-GAAP measures, which exclude the $18.0 million arbitration settlement gain in 2011, provide a more meaningful comparison of the company s year-over-year operating performance.

| *(Amounts in millions)* | 2012 | 2011 | Change |
|---|---|---|---|
| Operating earnings: | | | |
| As reported | | | |