SNAP-ON Inc
Form 10-Q
October 19, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2017**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-7724

(Exact name of registrant as specified in its charter)

Delaware	**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)

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

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

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Outstanding at October 13, 2017
Common Stock, $1.00 par value	57,007,188 shares

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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net sales	$ 903.8	$ 834.1	$ 2,712.3	$ 2,540.6
Cost of goods sold	(455.2)	(415.0)	(1,352.7)	(1,274.9)
Gross profit	448.6	419.1	1,359.6	1,265.7
Operating expenses	(295.5)	(261.5)	(853.3)	(786.3)
Operating earnings before financial services	153.1	157.6	506.3	479.4
Financial services revenue	79.0	71.6	233.5	207.2
Financial services expenses	(23.0)	(21.0)	(70.4)	(60.1)
Operating earnings from financial services	56.0	50.6	163.1	147.1
Operating earnings	209.1	208.2	669.4	626.5
Interest expense	(13.1)	(13.1)	(38.8)	(39.1)
Other income (expense) net	(2.1)	(0.8)	(5.7)	(0.3)
Earnings before income taxes and equity earnings	193.9	194.3	624.9	587.1
Income tax expense	(57.2)	(59.6)	(187.1)	(179.4)
Earnings before equity earnings	136.7	134.7	437.8	407.7
Equity earnings, net of tax	0.4	0.5	1.2	2.2
Net earnings	137.1	135.2	439.0	409.9
Net earnings attributable to noncontrolling interests	(3.7)	(3.5)	(10.8)	(9.8)
Net earnings attributable to Snap-on Incorporated	$ 133.4	$ 131.7	$ 428.2	$ 400.1
Net earnings per share attributable to Snap-on Incorporated:				
Basic	$ 2.33	$ 2.27	$ 7.43	$ 6.89
Diluted	2.29	2.22	7.27	6.74
Weighted-average shares outstanding:				
Basic	57.2	58.0	57.6	58.1

Effect of dilutive securities	1.1	1.3	1.3	1.3
Diluted	58.3	59.3	58.9	59.4
Dividends declared per common share	$ 0.71	$ 0.61	$ 2.13	$ 1.83

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Comprehensive income (loss):				
Net earnings	$ 137.1	$ 135.2	$ 439.0	$ 409.9
Other comprehensive income (loss):				
Foreign currency translation*	51.4	(7.8)	138.9	(22.8)
Unrealized cash flow hedges, net of tax:				
Other comprehensive income before reclassifications			6.1	
Reclassification of cash flow hedges to net earnings	(0.5)	(0.1)	(1.2)	(0.3)
Defined benefit pension and postretirement plans:				
Amortization of net unrecognized losses and prior service credits included in net periodic benefit cost	6.6	7.6	19.8	22.7
Income tax benefit	(2.3)	(2.8)	(6.9)	(8.3)
Net of tax	4.3	4.8	12.9	14.4
Total comprehensive income	$ 192.3	$ 132.1	$ 595.7	$ 401.2
Comprehensive income attributable to noncontrolling interests	(3.7)	(3.5)	(10.8)	(9.8)
Comprehensive income attributable to Snap-on Incorporated	$ 188.6	$ 128.6	$ 584.9	$ 391.4

* There is no reclassification adjustment as there was no sale or liquidation of any foreign entity during any period presented.

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 94.1	$ 77.6
Trade and other accounts receivable net	675.2	598.8
Finance receivables net	505.8	472.5
Contract receivables net	99.8	88.1
Inventories net	649.9	530.5
Prepaid expenses and other assets	121.1	116.5
Total current assets	2,145.9	1,884.0
Property and equipment:		
Land	24.4	19.1
Buildings and improvements	350.3	309.4
Machinery, equipment and computer software	872.8	809.6
	1,247.5	1,138.1
Accumulated depreciation and amortization	(773.3)	(712.9)
Property and equipment net	474.2	425.2
Deferred income tax assets	81.2	72.8
Long-term finance receivables net	1,018.6	934.5
Long-term contract receivables net	310.4	286.7
Goodwill	924.0	895.5
Other intangibles net	258.3	184.6
Other assets	43.6	39.9
Total assets	$ 5,256.2	$ 4,723.2

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	September 30, 2017	December 31, 2016
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	$ 453.4	$ 301.4
Accounts payable	204.7	170.9
Accrued benefits	47.8	52.8
Accrued compensation	74.8	89.8
Franchisee deposits	76.1	66.7
Other accrued liabilities	366.0	307.9
Total current liabilities	1,222.8	989.5
Long-term debt	755.0	708.8
Deferred income tax liabilities	28.5	13.1
Retiree health care benefits	34.3	36.7
Pension liabilities	181.8	246.5
Other long-term liabilities	93.8	93.4
Total liabilities	2,316.2	2,088.0
Commitments and contingencies (Note 14)		
Equity		
Shareholders equity attributable to Snap-on Incorporated:		
Preferred stock (authorized 15,000,000 shares of $1 par value; none outstanding)		
Common stock (authorized 250,000,000 shares of $1 par value; issued 67,407,599 and 67,400,250 shares, respectively)	67.4	67.4
Additional paid-in capital	344.4	317.3
Retained earnings	3,689.5	3,384.9
Accumulated other comprehensive loss	(341.8)	(498.5)
Treasury stock at cost (10,400,929 and 9,450,393 shares, respectively)	(837.7)	(653.9)
Total shareholders equity attributable to Snap-on Incorporated	2,921.8	2,617.2
Noncontrolling interests	18.2	18.0
Total equity	2,940.0	2,635.2
Total liabilities and equity	$ 5,256.2	$ 4,723.2

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Amounts in millions, except share data)

(Unaudited)

The following summarizes the changes in total equity for the nine month period ended September 30, 2017:

	Shareholders Equity Attributable to Snap-on Incorporated						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	$ 67.4	$ 317.3	$ 3,384.9	$ (498.5)	$ (653.9)	$ 18.0	$ 2,635.2
Net earnings for the nine months ended September 30, 2017			428.2			10.8	439.0
Other comprehensive income				156.7			156.7
Cash dividends $2.13 per share			(123.0)				(123.0)
Stock compensation plans		27.1			28.8		55.9
Share repurchases 1,348,000 shares					(212.6)		(212.6)
Other			(0.6)			(10.6)	(11.2)
Balance at September 30, 2017	$ 67.4	$ 344.4	$ 3,689.5	$ (341.8)	$ (837.7)	$ 18.2	$ 2,940.0

The following summarizes the changes in total equity for the nine month period ended October 1, 2016:

	Shareholders Equity Attributable to Snap-on Incorporated						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at January 2, 2016	$ 67.4	$ 296.3	$ 2,986.9	$ (364.2)	$ (573.7)	$ 18.0	$ 2,430.7
Net earnings for the nine months ended October 1, 2016			400.1			9.8	409.9
Other comprehensive loss				(8.7)			(8.7)
Cash dividends $1.83 per share			(106.3)				(106.3)
Stock compensation plans		22.8			27.1		49.9
Share repurchases 492,000 shares					(76.4)		(76.4)
Other			(0.7)			(9.8)	(10.5)
Balance at October 1, 2016	$ 67.4	$ 319.1	$ 3,280.0	$ (372.9)	$ (623.0)	$ 18.0	$ 2,688.6

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Nine Months Ended	
	September 30, 2017	October 1, 2016
Operating activities:		
Net earnings	$ 439.0	$ 409.9
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	48.7	45.7
Amortization of other intangibles	20.7	18.2
Provision for losses on finance receivables	38.6	30.4
Provision for losses on non-finance receivables	7.9	6.1
Stock-based compensation expense	21.4	21.5
Deferred income tax benefit	(10.1)	(12.5)
Gain on sale of assets	(0.1)	(0.1)
Settlement of treasury lock	14.9	
Changes in operating assets and liabilities, net of effects of acquisitions:		
Increase in trade and other accounts receivable	(50.8)	(31.2)
Increase in contract receivables	(31.8)	(30.8)
Increase in inventories	(86.9)	(29.9)
Increase in prepaid and other assets	(9.7)	(28.5)
Increase in accounts payable	26.5	27.7
Decrease in accruals and other liabilities	(13.3)	(10.9)
Net cash provided by operating activities	415.0	415.6
Investing activities:		
Additions to finance receivables	(670.0)	(691.4)
Collections of finance receivables	528.9	501.7
Capital expenditures	(57.3)	(56.6)
Acquisitions of businesses, net of cash acquired	(82.9)	
Disposal of property and equipment	1.4	1.9
Other	(2.5)	0.3
Net cash used by investing activities	(282.4)	(244.1)
Financing activities:		
Proceeds from issuance of long-term debt	297.8	
Repayments of long-term debt	(150.0)	
Proceeds from notes payable	16.8	4.5
Repayments of notes payable	(4.5)	(5.3)
Net increase in other short-term borrowings	38.7	15.6
Cash dividends paid	(123.0)	(106.3)
Purchases of treasury stock	(212.6)	(76.4)
Proceeds from stock purchase and option plans	36.2	32.4
Other	(18.9)	(11.3)
Net cash used by financing activities	(119.5)	(146.8)
Effect of exchange rate changes on cash and cash equivalents	3.4	
Increase in cash and cash equivalents	16.5	24.7

Cash and cash equivalents at beginning of year		77.6		92.8
Cash and cash equivalents at end of period	$	94.1	$	117.5
Supplemental cash flow disclosures:				
Cash paid for interest	$	(49.7)	$	(49.2)
Net cash paid for income taxes		(168.3)		(175.7)

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Summary of Accounting Policies

Principles of consolidation and presentation

The Condensed Consolidated Financial Statements include the accounts of Snap-on Incorporated and its wholly-owned and majority-owned subsidiaries (collectively, Snap-on or the company). These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Snap-on s 2016 Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (2016 year end). The company s 2017 fiscal third quarter ended on September 30, 2017; the 2016 fiscal third quarter ended on October 1, 2016. The company s 2017 and 2016 fiscal first, second and third quarters each contained 13 weeks of operating results.

Snap-on accounts for investments in unconsolidated affiliates where Snap-on has a greater than 20% but less than 50% ownership interest under the equity method of accounting. Investments in unconsolidated affiliates of $18.4 million as of September 30, 2017, and $15.2 million as of December 31, 2016, are included in Other assets on the accompanying Condensed Consolidated Balance Sheets; no equity investment dividends were received in any period presented. In the normal course of business, the company may purchase products or services from, or sell products and services to, unconsolidated affiliates. Purchases from unconsolidated affiliates were $2.4 million and $2.7 million in the respective fiscal third quarters of 2017 and 2016, and $8.1 million and $10.1 million in the respective first nine months of 2017 and 2016. Sales to unconsolidated affiliates were $0.1 million and zero in the respective fiscal third quarters of 2017 and 2016, and $0.3 million and zero in the respective first nine months of 2017 and 2016. The Condensed Consolidated Financial Statements do not include the accounts of the company s independent franchisees. Snap-on s Condensed Consolidated Financial Statements are prepared in conformity with generally accepted accounting principles in the United States of America (GAAP). All intercompany accounts and transactions have been eliminated.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the Condensed Consolidated Financial Statements for the three and nine month periods ended September 30, 2017, and October 1, 2016, have been made. Interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments

The fair value of the company s derivative financial instruments is generally determined using quoted prices in active markets for similar assets and liabilities. The carrying value of the company s non-derivative financial instruments either approximates fair value, due to their short-term nature, or the amount disclosed for fair value is based upon a discounted cash flow analysis or quoted market values. See Note 9 for further information on financial instruments.

New Accounting Standards

The following new accounting pronouncement was adopted in fiscal year 2017:

In January 2017, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) No. 2017-04, *Intangibles Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit s carrying amount over its fair value. Snap-on early adopted this ASU in the second quarter of 2017 in conjunction with its annual impairment test. The amendments in this ASU are being applied on a prospective basis and the adoption did not have a significant impact on the company s consolidated financial statements.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The following new accounting pronouncements, and related impacts on adoption, are being evaluated by the company:

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities*, which improves the financial reporting of hedging relationships to better portray the economic results of an entity s risk management activities in its financial statements. The amendments in this update also make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. ASU No. 2017-12 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; the ASU allows for early adoption in any interim period after issuance of the update. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which provides additional guidance on the presentation of net periodic pension and postretirement benefit costs in the income statement and on the components eligible for capitalization. The amendments in this ASU require that an employer report the service cost component of the net periodic benefit costs in the same income statement line item as other compensation costs arising from services rendered by employees during the period. The non-service-cost components of net periodic benefit costs are to be presented in the income statement separately from the service cost components and outside a subtotal of income from operations. The ASU also allows for the capitalization of the service cost components, when applicable (i.e., as a cost of internally manufactured inventory or a self-constructed asset).

The ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods; early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments in this ASU are to be applied retrospectively. The company does not expect the adoption of this ASU to have a significant impact on its consolidated income statement.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other Than Inventory*. The ASU eliminates the requirement to defer the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. Under the new guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years; early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance (i.e., the first interim period if an entity issues interim financial statements). The amendments in this ASU are to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings at the time of adoption. The company does not expect the adoption of this ASU to have a significant impact on its the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*, which adds and/or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years; early adoption is permitted. The company does not expect the adoption of the ASU to have a significant impact to the designations of operating, investing and financing activities on its consolidated statement of cash flows.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Credit Losses (Topic 326)*, to require the measurement of expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable forecasts. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years; the ASU allows for early adoption as of the beginning of an interim or annual reporting period beginning after December 15, 2018. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is intended to represent an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. This ASU, which supersedes most current lease guidance, affects any entity that enters into a lease (as that term is defined in the ASU), with some specified scope exemptions. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; the ASU allows for early adoption as of the beginning of an interim or annual reporting period. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that, together with several subsequent updates, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Topic 606 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments.

Entities have the option of adopting this standard using either a full retrospective approach or a modified retrospective approach (i.e., through a cumulative-effect adjustment directly to retained earnings at the time of adoption).

Snap-on commenced its assessment of Topic 606 during the second half of 2014 and developed a comprehensive project plan that included representatives from across the company s business segments. The project plan included analyzing the standard s impact on the company s various revenue streams, comparing its historical accounting policies and practices to the requirements of the new standard, identifying potential differences from applying the requirements of the new standard to its contracts, and providing updates on implementation progress. The company is in the process of identifying and implementing appropriate changes to its business processes, systems and controls to support revenue recognition and disclosures under Topic 606.

As of September 30, 2017, and subject to the company s ongoing evaluation of new transactions and contracts, the company has substantially completed its evaluation of the expected impact of adopting Topic 606 and anticipates that the adoption of this standard will not have a significant impact on the company s consolidated financial statements. The company believes that the adoption will result in the recognition of an inventory asset related to certain product returns by increasing the returns liability and an inventory asset for the anticipated value of the returns; the corresponding increase in the inventory asset and returns liability is expected to be in the range of $24 million to $28 million at the date of adoption. The adoption will also result in the recognition of an increase in the inventory obsolescence reserve related to the anticipated value on returns in the range of $2 million to $3 million with a corresponding adjustment to beginning retained earnings.

The company expects to adopt Topic 606 at the beginning of its 2018 fiscal year using the modified retrospective approach.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 2: Acquisitions

On July 28, 2017, Snap-on acquired Torque Control Specialist (TCS), for a cash purchase price of $3.6 million (or $3.5 million, net of cash acquired). TCS, based in Adelaide, Australia, distributes a full range of torque products, including wrenches, multipliers and calibrators for use in critical industries.

In the third quarter of 2017, the company substantially completed the purchase accounting valuations for the acquired net assets of TCS. The $1.9 million excess of the purchase price over the fair value of the net assets acquired was recorded in Goodwill on the accompanying Condensed Consolidated Balance Sheets. For segment reporting purposes, the results of operations and assets of TCS have been included in the Commercial & Industrial Group since the acquisition date.

On May 4, 2017, Snap-on acquired Norbar Torque Tools Holding Limited, along with its U.S. and Chinese joint ventures (Norbar), for a purchase price of $71.6 million (or $69.9 million, net of cash acquired), which reflects a $0.8 million working capital adjustment finalized in the third quarter of 2017. Norbar, based in Banbury, U.K., designs and manufactures a full range of torque products, including wrenches, multipliers and calibrators for use in critical industries.

In the third quarter of 2017, the company substantially completed the purchase accounting valuations for the acquired net assets of Norbar, including intangible assets. The $23.7 million excess of the Norbar purchase price over the fair value of the net assets acquired was recorded in Goodwill on the accompanying Condensed Consolidated Balance Sheets. For segment reporting purposes, the results of operations and assets of Norbar have been included in the Commercial & Industrial Group since the acquisition date.

On January 30, 2017, Snap-on acquired BTC Global Limited (BTC) for a cash purchase price of $9.2 million. BTC, based in Crewe, U.K., designs and implements automotive vehicle inspection and management software for original equipment manufacturer (OEM) franchise repair shops.

In the second quarter of 2017, the company completed the purchase accounting valuations for the acquired net assets of BTC, including intangible assets. The $5.9 million excess of the BTC purchase price over the fair value of the net assets acquired was recorded in Goodwill on the accompanying Condensed Consolidated Balance Sheets. For segment reporting purposes, the results of operations and assets of BTC have been included in the Repair Systems and Information Group since the acquisition date.

On November 16, 2016, Snap-on acquired Ryeson Corporation (d/b/a Sturtevant Richmont) for a purchase price of $13.0 million (or $12.6 million, net of cash acquired), which reflects a $0.1 million working capital adjustment finalized in the first quarter of 2017. Sturtevant Richmont designs, manufactures and distributes mechanical and electronic torque wrenches as well as wireless torque error proofing systems for a variety of industrial applications.

In the first quarter of 2017, the company completed the purchase accounting valuations for the acquired net assets, including intangible assets. The $5.0 million excess of the Sturtevant Richmont purchase price over the fair value of the net assets acquired was recorded in Goodwill on the accompanying Condensed Consolidated Balance Sheets. For segment reporting purposes, the results of operations and assets of Sturtevant Richmont have been included in the Commercial & Industrial Group since the acquisition date.

On October 31, 2016, Snap-on acquired Car-O-Liner Holding AB (Car-O-Liner) for a purchase price of $152.0 million (or $148.1 million, net of cash acquired), which reflects a $0.2 million working capital adjustment finalized in the first quarter of 2017. Car-O-Liner designs and manufactures collision repair equipment, and information and truck alignment systems.

In the third quarter of 2017, the company substantially completed the purchase accounting valuations for the acquired net assets of Car-O-Liner, including intangible assets. The $77.7 million excess of the Car-O-Liner purchase price over the fair value of the net assets acquired was recorded in Goodwill on the accompanying Condensed Consolidated Balance Sheets. For segment reporting purposes, substantially all of

Car-O-Liner s results of operations and assets have been included in the Repair Systems & Information Group since the acquisition date, with the remaining portions included in the Commercial & Industrial Group.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The following is a summary of the values of the assets acquired and liabilities assumed of Car-O-Liner, including adjustments recorded as of the nine months ended September 30, 2017, as a result of new information obtained about facts and circumstances that existed as of the October 31, 2016 acquisition date:

(Amounts in millions)	Amounts as of October 31, 2016 (As Adjusted)
Assets acquired:	
Cash	$ 3.9
Trade and other accounts receivable	17.0
Inventories	18.3
Property and equipment	17.3
Goodwill	77.7
Other intangibles:	
Customer relationships	27.2
Non-amortized trademarks	27.7
Other assets	5.9
Total assets acquired	195.0
Liabilities assumed:	
Accounts payable	9.8
Deferred income tax liabilities	15.4
Accrued expenses	13.5
Pension liabilities	4.3
Total liabilities assumed	43.0
Net assets acquired	$ 152.0

In the nine month period ended September 30, 2017, Snap-on recognized expense of $0.5 million (of which $0.2 million was in Cost of goods sold and $0.3 million was in Operating expenses) in the accompanying Condensed Consolidated Statements of Earnings related to Car-O-Liner that would have been recognized in 2016 if the provisional adjustments identified in the current reporting period had been recognized as of the October 31, 2016 acquisition date; there was no such expense in the three months ended September 30, 2017.

Pro forma financial information has not been presented for any of these acquisitions as the net effects, individually and collectively, were neither significant nor material to Snap-on s results of operations or financial position.

Note 3: Receivables

Trade and Other Accounts Receivable

Snap-on s trade and other accounts receivable primarily arise from the sale of tools and diagnostic and equipment products to a broad range of industrial and commercial customers and to Snap-on s independent franchise van channel on a non-extended-term basis with payment terms generally ranging from 30 to 120 days.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The components of Snap-on s trade and other accounts receivable as of September 30, 2017, and December 31, 2016, are as follows:

(Amounts in millions)	September 30, 2017	December 31, 2016
Trade and other accounts receivable	$ 689.6	$ 612.8
Allowances for doubtful accounts	(14.4)	(14.0)
Total trade and other accounts receivable net	$ 675.2	$ 598.8

Finance and Contract Receivables

Snap-on Credit LLC (SOC), the company s financial services operation in the United States, originates extended-term finance and contract receivables on sales of Snap-on s products sold through the U.S. franchisee and customer network and to certain other customers of Snap-on; Snap-on s foreign finance subsidiaries provide similar financing internationally. Interest income on finance and contract receivables is included in Financial services revenue on the accompanying Condensed Consolidated Statements of Earnings.

Snap-on s finance receivables are comprised of extended-term installment payment contracts to both technicians and independent shop owners (i.e., franchisees customers) to enable them to purchase tools and diagnostic and equipment products on an extended-term payment plan, generally with average payment terms approaching four years. Contract receivables, with payment terms of up to 10 years, are comprised of extended-term installment payment contracts to a broad base of customers worldwide, including shop owners, both independents and national chains, for their purchase of tools and diagnostic and equipment products. Contract receivables also include extended-term installment loans to franchisees to meet a number of financing needs, including working capital loans, loans to enable new franchisees to fund the purchase of the franchise and van leases. Finance and contract receivables are generally secured by the underlying tools and/or diagnostic or equipment products financed and, for installment loans to franchisees, other franchisee assets.

The components of Snap-on s current finance and contract receivables as of September 30, 2017, and December 31, 2016, are as follows:

(Amounts in millions)	September 30, 2017	December 31, 2016
Finance receivables, net of unearned finance charges of $20.7 million and $17.0 million, respectively	$ 522.8	$ 488.1
Contract receivables, net of unearned finance charges of $17.0 million and $15.6 million, respectively	101.4	89.3
Total	624.2	577.4
Allowances for doubtful accounts:		
Finance receivables	(17.0)	(15.6)
Contract receivables	(1.6)	(1.2)
Total	(18.6)	(16.8)

Total current finance and contract receivables net	$ 605.6	$ 560.6

Finance receivables net	$ 505.8	$ 472.5
Contract receivables net	99.8	88.1
Total current finance and contract receivables net	$ 605.6	$ 560.6

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The components of Snap-on s finance and contract receivables with payment terms beyond one year as of September 30, 2017, and December 31, 2016, are as follows:

(Amounts in millions)	September 30, 2017	December 31, 2016
Finance receivables, net of unearned finance charges of $16.4 million and $13.0 million, respectively	$ 1,055.8	$ 967.5
Contract receivables, net of unearned finance charges of $24.3 million and $21.5 million, respectively	313.9	289.4
Total	1,369.7	1,256.9
Allowances for doubtful accounts:		
Finance receivables	(37.2)	(33.0)
Contract receivables	(3.5)	(2.7)
Total	(40.7)	(35.7)
Total long-term finance and contract receivables net	$ 1,329.0	$ 1,221.2
Finance receivables net	$ 1,018.6	$ 934.5
Contract receivables net	310.4	286.7
Total long-term finance and contract receivables net	$ 1,329.0	$ 1,221.2

Delinquency is the primary indicator of credit quality for finance and contract receivables. Receivable balances are considered delinquent when contractual payments become 30 days past due.

Finance receivables are generally placed on nonaccrual status (nonaccrual of interest and other fees): (i) when a customer is placed on repossession status; (ii) upon receipt of notification of bankruptcy; (iii) upon notification of the death of a customer; or (iv) in other instances in which management concludes collectability is not reasonably assured. Finance receivables that are considered nonperforming include receivables that are on nonaccrual status and receivables that are generally more than 90 days past due.

Contract receivables are generally placed on nonaccrual status: (i) when a receivable is more than 90 days past due or at the point a customer s account is placed on terminated status regardless of its delinquency status; (ii) upon notification of the death of a customer; or (iii) in other instances in which management concludes collectability is not reasonably assured. Contract receivables that are considered nonperforming include receivables that are on nonaccrual status and receivables that are generally more than 90 days past due.

The accrual of interest and other fees is resumed when the finance or contract receivable becomes contractually current and collection of all remaining contractual amounts due is reasonably assured. Finance and contract receivables are evaluated for impairment on a collective basis. A receivable is impaired when it is probable that all amounts related to the receivable will not be collected according to the contractual terms of the applicable agreement. Impaired finance and contract receivables are covered by the company s respective allowances for doubtful accounts and are charged-off against the allowances when appropriate. As of September 30, 2017, and December 31, 2016, there were $27.8 million and

$24.9 million, respectively, of impaired finance receivables, and there were $2.2 million and $2.0 million, respectively, of impaired contract receivables.

It is the general practice of Snap-on s financial services business to not engage in contract or loan modifications. In limited instances, Snap-on s financial services business may modify certain impaired receivables in troubled debt restructurings. The amount and number of restructured finance and contract receivables as of September 30, 2017, and December 31, 2016, were immaterial to both the financial services portfolio and the company s results of operations and financial position.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The aging of finance and contract receivables as of September 30, 2017, and December 31, 2016, is as follows:

(Amounts in millions)	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Not Past Due	Total	Greater Than 90 Days Past Due and Accruing
September 30, 2017:							
Finance receivables	$ 16.0	$ 11.6	$ 19.3	$ 46.9	$ 1,531.6	$ 1,578.5	$ 15.1
Contract receivables	1.4	0.7	1.7	3.8	411.6	415.4	0.8
December 31, 2016:							
Finance receivables	$ 15.1	$ 9.8	$ 17.0	$ 41.9	$ 1,413.7	$ 1,455.6	$ 13.2
Contract receivables	1.4	0.9	1.4	3.7	375.0	378.7	0.5

The amount of performing and nonperforming finance and contract receivables based on payment activity as of September 30, 2017, and December 31, 2016, is as follows:

	September 30, 2017		December 31, 2016	
(Amounts in millions)	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Performing	$ 1,550.7	$ 413.2	$ 1,430.7	$ 376.7
Nonperforming	27.8	2.2	24.9	2.0
Total	$ 1,578.5	$ 415.4	$ 1,455.6	$ 378.7

The amount of finance and contract receivables on nonaccrual status as of September 30, 2017, and December 31, 2016, is as follows:

(Amounts in millions)	September 30, 2017	December 31, 2016
Finance receivables	$ 12.7	$ 11.7
Contract receivables	1.5	1.5

The following is a rollforward of the allowances for doubtful accounts for finance and contract receivables for the three and nine months ended September 30, 2017:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
(Amounts in millions)	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables

Allowances for doubtful accounts:				
Beginning of period	$ 52.5	$ 4.8	$ 48.6	$ 3.9
Provision	12.8	0.8	38.6	2.7
Charge-offs	(12.6)	(0.7)	(38.0)	(1.9)
Recoveries	1.5	0.2	4.9	0.3
Currency translation			0.1	0.1
End of period	$ 54.2	$ 5.1	$ 54.2	$ 5.1

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The following is a rollforward of the allowances for doubtful accounts for finance and contract receivables for the three and nine months ended October 1, 2016:

	Three Months Ended October 1, 2016		Nine Months Ended October 1, 2016	
(Amounts in millions)	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Allowances for doubtful accounts:				
Beginning of period	$ 42.6	$ 4.5	$ 38.2	$ 4.4
Provision	10.8	0.5	30.4	1.1
Charge-offs	(9.2)	(0.6)	(28.0)	(1.3)
Recoveries	1.4	0.1	5.0	0.3
End of period	$ 45.6	$ 4.5	$ 45.6	$ 4.5

Note 4: Inventories

Inventories by major classification are as follows:

(Amounts in millions)	September 30, 2017	December 31, 2016
Finished goods	$ 556.6	$ 467.4
Work in progress	49.5	42.7
Raw materials	118.2	93.6
Total FIFO value	724.3	603.7
Excess of current cost over LIFO cost	(74.4)	(73.2)
Total inventories net	$ 649.9	$ 530.5

Inventories accounted for using the first-in, first-out (FIFO) method approximated 60% and 59% of total inventories as of September 30, 2017, and December 31, 2016, respectively. The company accounts for its non-U.S. inventory on the FIFO method. As of September 30, 2017, approximately 32% of the company s U.S. inventory was accounted for using the FIFO method and 68% was accounted for using the last-in, first-out (LIFO) method. There were no LIFO inventory liquidations in the three and nine months ended September 30, 2017, or October 1, 2016.

Note 5: Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2017, are as follows:

(Amounts in millions)	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Total
Balance as of December 31, 2016	$ 242.4	$ 12.5	$ 640.6	$ 895.5
Currency translation	29.1		16.5	45.6
Acquisitions and related adjustments	25.7		(42.8)	(17.1)
Balance as of September 30, 2017	$ 297.2	$ 12.5	$ 614.3	$ 924.0

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Goodwill of $924.0 million as of September 30, 2017, includes (i) $77.7 million, on a preliminary basis, from the acquisition of Car-O-Liner, (ii) $23.7 million, on a preliminary basis, from the acquisition of Norbar, (iii) $5.9 million from the acquisition of BTC, (iv) $5.0 million from the acquisition of Sturtevant Richmont, and (v) $1.9 million, on a preliminary basis, from the acquisition of TCS. The goodwill from the Car-O-Liner acquisition is distributed as follows: $76.9 million in the Repair Systems & Information Group and $0.8 million in the Commercial & Industrial Group. The goodwill from the Norbar, Sturtevant Richmont and TCS acquisitions is included in the Commercial & Industrial Group and the goodwill from the BTC acquisition is included in the Repair Systems & Information Group. See Note 2 for additional information on acquisitions.

Since the purchase accounting for deferred taxes for the acquired net assets of Car-O-Liner, Norbar and TCS were not complete as of September 30, 2017, the allocation of the respective purchase prices and resulting goodwill has been prepared on a preliminary basis and changes to the allocations will occur as the deferred taxes are determined. The company anticipates completing the purchase accounting for these acquisitions in the fourth quarter of 2017.

Additional disclosures related to other intangible assets are as follows:

	September 30, 2017		December 31, 2016	
(Amounts in millions)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Amortized other intangible assets:				
Customer relationships	$ 175.5	$ (95.6)	$ 142.6	$ (86.0)
Developed technology	18.9	(18.4)	17.7	(17.7)
Internally developed software	174.5	(129.7)	165.7	(118.3)
Patents	33.7	(22.5)	31.9	(21.5)
Trademarks	2.9	(1.9)	2.8	(1.8)
Other	7.7	(2.6)	7.2	(2.2)
Total	413.2	(270.7)	367.9	(247.5)
Non-amortized trademarks	115.8		64.2	
Total other intangible assets	$ 529.0	$ (270.7)	$ 432.1	$ (247.5)

As of September 30, 2017, the $175.5 million gross carrying value of customer relationships includes $29.1 million related to the Car-O-Liner acquisition, $1.2 million related to the BTC acquisition and $1.1 million related to the Norbar acquisition. The $115.8 million gross carrying value of non-amortized trademarks as of September 30, 2017, includes $30.2 million related to the Car-O-Liner acquisition, $16.9 million related to the Norbar acquisition and $2.1 million related to the BTC acquisition.

Snap-on completed its annual impairment testing of goodwill and other indefinite-lived intangible assets in the second quarter of 2017, the results of which did not result in any impairment. Significant and unanticipated changes in circumstances, such as declines in profitability and cash flow due to significant and long-term deterioration in macroeconomic, industry and market conditions, the loss of key customers, changes in technology or markets, significant changes in key personnel or litigation, a significant and sustained decrease in share price and/or other events, including effects from the sale or disposal of a reporting unit, could require a provision for impairment of goodwill and/or other intangible assets in a future period. As of September 30, 2017, the company had no accumulated impairment losses.

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SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The weighted-average amortization periods related to other intangible assets are as follows:

	In Years
Customer relationships	15
Internally developed software	3
Patents	8
Trademarks	6
Other	39

Snap-on is amortizing its customer relationships on both an accelerated and straight-line basis over a 15-year weighted-average life; the remaining intangibles are amortized on a straight-line basis. The weighted-average amortization period for all amortizable intangibles on a combined basis is 11 years.

The company s customer relationships generally have contractual terms of three to five years and are typically renewed without significant cost to the company. The weighted-average 15-year life for customer relationships is based on the company s historical renewal experience. Intangible asset renewal costs are expensed as incurred.

The aggregate amortization expense was $7.1 million and $20.7 million for the respective three and nine months ended September 30, 2017, and $5.9 million and $18.2 million for the respective three and nine months ended October 1, 2016. Based on current levels of amortizable intangible assets and estimated weighted-average useful lives, estimated annual amortization expense is expected to be $27.6 million in 2017, $26.3 million in 2018, $22.7 million in 2019, $18.0 million in 2020, $14.7 million in 2021, and $9.9 million in 2022.

Note 6: Exit and Disposal Activities

Snap-on did not record any costs for exit and disposal activities in the three and nine months ended September 30, 2017, or in the three months ended October 1, 2016. Snap-on recorded $0.9 million of costs for exit and disposal activities in the nine months ended October 1, 2016. The majority of the $0.8 million exit and disposal accrual as of September 30, 2017, is expected to be utilized in 2017. Snap-on anticipates funding the remaining cash requirements of its exit and disposal activities with available cash on hand, cash flows from operations and borrowings under the company s existing credit facilities. The estimated costs for the exit and disposal activities were based on management s best business judgment under prevailing circumstances.

Note 7: Income Taxes

Snap-on s effective income tax rate on earnings attributable to Snap-on was 30.5% and 31.1% in the first nine months of 2017 and 2016, respectively.

Snap-on and its subsidiaries file income tax returns in the United States and in various state, local and foreign jurisdictions. It is reasonably possible that certain unrecognized tax benefits may either be settled with taxing authorities or the statutes of limitations for such items may lapse within the next 12 months, causing Snap-on s gross unrecognized tax benefits to decrease by a range of zero to $2.3 million. Over the next 12 months, Snap-on anticipates taking certain tax positions on various tax returns for which the related tax benefit does not meet the recognition threshold. Accordingly, Snap-on s gross unrecognized tax benefits may increase by a range of zero to $1.3 million over the next 12 months for uncertain tax positions expected to be taken in future tax filings.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 8: Short-term and Long-term Debt

Short-term and long-term debt as of September 30, 2017, and December 31, 2016, consisted of the following:

(Amounts in millions)	September 30, 2017	December 31, 2016
5.50% unsecured notes due 2017	$	$ 150.0
4.25% unsecured notes due 2018	250.0	250.0
6.70% unsecured notes due 2019	200.0	200.0
6.125% unsecured notes due 2021	250.0	250.0
3.25% unsecured notes due 2027	300.0	
Other debt*	208.4	160.2
	1,208.4	1,010.2
Less: notes payable and current maturities of long-term debt:		
Current maturities of long-term debt	(250.0)	(150.0)
Commercial paper borrowings	(170.0)	(130.0)
Other notes	(33.4)	(21.4)
	(453.4)	(301.4)
Total long-term debt	$ 755.0	$ 708.8

*Includes fair value adjustments related to interest rate swaps, debt discounts and debt issuance costs.

Notes payable and current maturities of long-term debt of $453.4 million as of September 30, 2017, included $250 million of 4.25% unsecured notes that mature on January 15, 2018 (the 2018 Notes), $170 million of commercial paper borrowings and $33.4 million of other notes. As of 2016 year end, notes payable and current maturities of long-term debt of $301.4 million included $150 million of unsecured 5.50% notes that were repaid in January 2017 upon maturity, $130 million of commercial paper borrowings and $21.4 million of other notes. As of 2016 year end, the 2018 Notes were included in Long-term debt on the accompanying Condensed Consolidated Balance Sheets as their scheduled maturity was in excess of one year of the 2016 year-end balance sheet date.

On February 15, 2017, Snap-on sold, at a discount, $300 million of unsecured 3.25% long-term notes that mature on March 1, 2027 (the 2027 Notes). Interest on the 2027 Notes is payable semi-annually beginning September 1, 2017. Snap-on used the $297.8 million of net proceeds from the sale of the 2027 Notes, reflecting $1.9 million of transaction costs, to repay a portion of its then-outstanding commercial paper borrowings and the remainder was retained for general corporate purposes, which may include working capital, capital expenditures and possible acquisitions.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Snap-on has a five-year, $700 million multi-currency revolving credit facility that terminates on December 15, 2020 (the Credit Facility); no amounts were outstanding under the Credit Facility as of September 30, 2017. Borrowings under the Credit Facility bear interest at varying rates based on Snap-on s then-current, long-term debt ratings. The Credit Facility s financial covenant requires that Snap-on maintain, as of each fiscal quarter end, either (i) a ratio not greater than 0.60 to 1.00 of consolidated net debt (consolidated debt net of certain cash adjustments) to the sum of such consolidated net debt plus total equity and less accumulated other comprehensive income or loss (the Debt Ratio); or (ii) a ratio not greater than 3.50 to 1.00 of such consolidated net debt to earnings before interest, taxes, depreciation, amortization and certain other adjustments for the preceding four fiscal quarters then ended (the Debt to EBITDA Ratio). Snap-on may, up to two times during any five-year period during the term of the Credit Facility (including any extensions thereof), increase the maximum Debt Ratio to 0.65 to 1.00 and/or increase the maximum Debt to EBITDA Ratio to 3.75 to 1.00 for four consecutive fiscal quarters in connection with certain material acquisitions (as defined in the related credit agreement). As of September 30, 2017, the company s actual ratios of 0.26 and 1.16 respectively, were both within the permitted ranges set forth in this financial covenant. Snap-on generally issues commercial paper to fund its financing needs on a short-term basis and uses the Credit Facility as back-up liquidity to support such commercial paper issuances.

Note 9: Financial Instruments

Derivatives: All derivative instruments are reported in the Condensed Consolidated Financial Statements at fair value. Changes in the fair value of derivatives are recorded each period in earnings or on the accompanying Condensed Consolidated Balance Sheets, depending on whether the derivative is designated and effective as part of a hedged transaction. Gains or losses on derivative instruments recorded in Accumulated other comprehensive income (loss) (Accumulated OCI) must be reclassified to earnings in the period in which earnings are affected by the underlying hedged item and the ineffective portion of all hedges must be recognized in earnings in the period that such portion is determined to be ineffective.

The criteria used to determine if hedge accounting treatment is appropriate are: (i) the designation of the hedge to an underlying exposure; (ii) whether or not overall risk is being reduced; and (iii) if there is a correlation between the value of the derivative instrument and the underlying hedged item. On the date a derivative contract is entered into, Snap-on designates the derivative as a fair value hedge, a cash flow hedge, a hedge of a net investment in a foreign operation, or a natural hedging instrument whose change in fair value is recognized as an economic hedge against changes in the value of the hedged item. Snap-on does not use derivative instruments for speculative or trading purposes.

The company is exposed to global market risks, including the effects of changes in foreign currency exchange rates, interest rates, and the company s stock price, and therefore uses derivatives to manage financial exposures that occur in the normal course of business. The primary risks managed by using derivative instruments are foreign currency risk, interest rate risk and stock-based deferred compensation risk.

Foreign Currency Risk Management: Snap-on has significant international operations and is subject to certain risks inherent with foreign operations that include currency fluctuations. Foreign currency exchange risk exists to the extent that Snap-on has payment obligations or receipts denominated in currencies other than the functional currency, including intercompany loans denominated in foreign currencies. To manage these exposures, Snap-on identifies naturally offsetting positions and then purchases hedging instruments to protect the residual net exposures. Snap-on manages most of these exposures on a consolidated basis, which allows for netting of certain exposures to take advantage of natural offsets. Foreign currency forward contracts (foreign currency forwards) are used to hedge the net exposures. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. Snap-on s foreign currency forwards are typically not designated as hedges. The fair value changes of these contracts are reported in earnings as foreign exchange gain or loss, which is included in Other income (expense) net on the accompanying Condensed Consolidated Statements of Earnings.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

As of September 30, 2017, Snap-on had $179.1 million of net foreign currency forward buy contracts outstanding comprised of buy contracts including $66.4 million in euros, $53.6 million in Swedish kronor, $50.6 million in British pounds, $13.1 million in Hong Kong dollars, $11.1 million in Singapore dollars, $6.7 million in South Korean won, $4.4 million in Mexican pesos, $3.3 million in Danish kroner, $3.2 million in Norwegian kroner, and $2.2 million in other currencies, and sell contracts including $13.7 million in Australian dollars, $6.5 million in Canadian dollars, $5.4 million in Indian rupees, $2.8 million in Thai baht, and $7.1 million in other currencies. As of 2016 year end, Snap-on had $144.4 million of net foreign currency forward buy contracts outstanding comprised of buy contracts including $55.0 million in euros, $53.6 million in British pounds, $47.0 million in Swedish kronor, $9.0 million in Hong Kong dollars, $7.0 million in South Korean won, $5.5 million in Singapore dollars, $4.9 million in Mexican pesos, $4.6 million in Norwegian kroner, and $6.4 million in other currencies, and sell contracts including $16.6 million in Japanese yen, $11.8 million in Canadian dollars, $4.4 million in Australian dollars, $4.0 million in Brazilian real, and $11.8 million in other currencies.

Interest Rate Risk Management: Snap-on aims to control funding costs by managing the exposure created by the differing maturities and interest rate structures of Snap-on s borrowings through the use of interest rate swap agreements (interest rate swaps) and treasury lock agreements (treasury locks).

Snap-on enters into interest rate swaps to manage risks associated with changing interest rates related to the company s fixed rate borrowings. Interest rate swaps are accounted for as fair value hedges. The differentials paid or received on interest rate swaps are recognized as adjustments to Interest expense on the accompanying Condensed Consolidated Statements of Earnings. The effective portion of the change in fair value of the derivative is recorded in Long-term debt on the accompanying Condensed Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to Interest expense on the accompanying Condensed Consolidated Statements of Earnings. The notional amount of interest rate swaps outstanding and designated as fair value hedges was $100 million as of both September 30, 2017, and December 31, 2016.

Snap-on entered into a $250 million treasury lock in the fourth quarter of 2016 to manage the potential change in interest rates in anticipation of the possible issuance of fixed rate debt. Treasury locks are accounted for as cash flow hedges. The effective differentials to be paid or received on treasury locks related to the anticipated issuance of fixed rate debt are initially recorded in Accumulated OCI. In the first quarter of 2017, Snap-on settled the $250 million treasury lock in conjunction with the February 2017 issuance of the 2027 Notes. The $14.9 million gain on the settlement of the treasury lock was recorded in Accumulated OCI and is being amortized over the term of the 2027 Notes and recognized as an adjustment to interest expense on the consolidated statements of earnings. As of September 30, 2017, no treasury locks were outstanding. The notional amount of treasury locks outstanding and designated as cash flow hedges as of December 31, 2016, was $250 million.

Stock-based Deferred Compensation Risk Management: Snap-on aims to manage market risk associated with the stock-based portion of its deferred compensation plans through the use of prepaid equity forward agreements (equity forwards). Equity forwards are used to aid in offsetting the potential mark-to-market effect on stock-based deferred compensation from changes in Snap-on s stock price. Since stock-based deferred compensation liabilities increase as the company s stock price rises and decrease as the company s stock price declines, the equity forwards are intended to mitigate the potential impact on deferred compensation expense that may result from such mark-to-market changes. As of September 30, 2017, Snap-on had equity forwards in place intended to manage market risk with respect to 120,900 shares of Snap-on common stock associated with its deferred compensation plans.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Fair Value Measurements: Snap-on has derivative assets and liabilities related to interest rate swaps, treasury locks, foreign currency forwards and equity forwards that are measured at Level 2 fair value on a recurring basis. The fair value of derivative instruments included within the Condensed Consolidated Balance Sheets as of September 30, 2017, and December 31, 2016, are as follows:

		September 30, 2017		December 31, 2016	
(Amounts in millions)	Balance Sheet Presentation	Asset Derivatives Fair Value	Liability Derivatives Fair Value	Asset Derivatives Fair Value	Liability Derivatives Fair Value
Derivatives designated as hedging instruments:					
Interest rate swaps	Other assets	$ 8.1	$	$ 9.8	$
Treasury locks	Other assets			14.3	
		8.1		24.1	
Derivatives not designated as hedging instruments:					
Foreign currency forwards	Prepaid expenses and other assets	$ 8.5	$	$ 4.4	$
Foreign currency forwards	Other accrued liabilities		3.0		13.5
Equity forwards	Prepaid expenses and other assets	18.0		17.9	
Total		26.5	3.0	22.3	13.5
Total derivative instruments		$ 34.6	$ 3.0	$ 46.4	$ 13.5

As of September 30, 2017, and December 31, 2016, the fair value adjustment to long-term debt related to the interest rate swaps was $8.1 million and $9.8 million, respectively.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. Level 2 fair value measurements for derivative assets and liabilities are measured using quoted prices in active markets for similar assets and liabilities. Interest rate swaps are valued based on the six-month LIBOR swap rate for similar instruments. Treasury locks are valued based on the 10-year U.S. treasury interest rate. Foreign currency forwards are valued based on exchange rates quoted by domestic and foreign banks for similar instruments. Equity forwards are valued using a market approach based primarily on the company s stock price at the reporting date. The company did not have any derivative assets or liabilities measured at Level 1 or Level 3, nor did it implement any changes in its valuation techniques as of and for the nine months ended September 30, 2017.

The effect of derivative instruments designated as fair value hedges as included in the Condensed Consolidated Statements of Earnings is as follows:

	Effective Portion of Gain Recognized in Income	
	Three months ended	Nine months ended
(Amounts in millions)		

	Statement of Earnings Presentation	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Derivatives designated as fair value hedges:					
Interest rate swaps	Interest expense	$ 0.7	$ 0.4	$ 2.1	$ 1.9

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The effect of derivative instruments designated as cash flow hedges as included in Accumulated OCI on the Condensed Consolidated Balance Sheets and the Condensed Consolidated Statements of Earnings is as follows:

	Effective Portion of Gain Recognized in Accumulated OCI Three months ended		Statement of Earnings Presentation	Effective Portion of Gain Reclassified from Accumulated OCI into Income Three months ended	
(Amounts in millions)	September 30, 2017	October 1, 2016		September 30, 2017	October 1, 2016
Derivatives designated as cash flow hedges:					
Treasury locks	$	$	Interest expense	$ 0.5	$ 0.1

	Effective Portion of Gain Recognized in Accumulated OCI Nine months ended		Statement of Earnings Presentation	Effective Portion of Gain Reclassified from Accumulated OCI into Income Nine months ended	
(Amounts in millions)	September 30, 2017	October 1, 2016		September 30, 2017	October 1, 2016
Derivatives designated as cash flow hedges:					
Treasury locks	$ 6.1	$	Interest expense	$ 1.2	$ 0.3

The effects of derivative instruments not designated as hedging instruments as included in the Condensed Consolidated Statements of Earnings are as follows:

	Statement of Earnings	Gain (Loss) Recognized in Income Three months ended		Nine months ended	
(Amounts in millions)	Presentation	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Derivatives not designated as hedging instruments:					
Foreign currency forwards	Other income (expense) net	$ 1.6	$ (0.7)	$ (2.3)	$ (4.9)
Equity forwards	Operating expenses	(0.9)	(0.7)	(2.2)	(1.4)

Snap-on s foreign currency forwards are typically not designated as hedges for financial reporting purposes. The fair value changes of foreign currency forwards not designated as hedging instruments are reported in earnings as foreign exchange gain or loss in Other income (expense) net on the accompanying Condensed Consolidated Statements of Earnings. The $1.6 million derivative gain recognized in the third quarter of 2017 was more than offset by transaction losses on net exposures of $3.6 million, resulting in a net foreign exchange loss of $2.0 million for the quarter. The $0.7 million derivative loss recognized in the third quarter of 2016 was increased by transaction losses on net exposures of $0.3 million, resulting in a foreign exchange loss of $1.0 million for the quarter. The $2.3 million derivative loss recognized in the first nine months of 2017 was increased by transaction losses on net exposures of $3.4 million, resulting in a 2017 year-to-date net foreign exchange loss of $5.7 million. The $4.9 million derivative loss recognized in the first nine months of 2016 was partially offset by transaction gains on net exposures of $4.0 million, resulting in a 2016 year-to-date net foreign exchange loss of $0.9 million. The resulting net foreign exchange gains and losses are included in Other income (expense) net on the accompanying Condensed Consolidated Statements of Earnings. See Note 15 for additional information on Other income (expense) net.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Snap-on s equity forwards are not designated as hedges for financial reporting purposes. Fair value changes of both the equity forwards and related stock-based (mark-to-market) deferred compensation liabilities are reported in Operating expenses on the accompanying Condensed Consolidated Statements of Earnings. The $0.9 million derivative loss recognized in the third quarter of 2017 was offset by $0.9 million of mark-to-market deferred compensation benefit. The $0.7 million derivative loss recognized in the third quarter of 2016 was offset by $0.7 million of mark-to-market deferred compensation benefit. The $2.2 million derivative loss recognized in the first nine months of 2017 was substantially offset by a mark-to-market deferred compensation benefit of $2.1 million. The $1.4 million derivative loss recognized in the first nine months of 2016 was more than offset by a mark-to-market deferred compensation benefit of $1.8 million.

As of September 30, 2017, the maximum maturity date of any fair value hedge was four years. During the next 12 months, Snap-on expects to reclassify into earnings net gains from Accumulated OCI of approximately $1.0 million after tax at the time the underlying hedge transactions are realized.

Counterparty Risk: Snap-on is exposed to credit losses in the event of non-performance by the counterparties to its various financial agreements, including its foreign currency forward contracts, interest rate swap agreements, treasury lock agreements and prepaid equity forward agreements. Snap-on does not obtain collateral or other security to support financial instruments subject to credit risk, but monitors the credit standing of the counterparties and generally enters into agreements with financial institution counterparties with a credit rating of A- or better. Snap-on does not anticipate non-performance by its counterparties, but cannot provide assurances.

Fair Value of Financial Instruments: The fair values of financial instruments that do not approximate the carrying values in the financial statements are as follows:

	September 30, 2017		December 31, 2016	
(Amounts in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Finance receivables net	$ 1,524.4	$ 1,767.1	$ 1,407.0	$ 1,631.2
Contract receivables net	410.2	448.4	374.8	409.7
Long-term debt, notes payable and current maturities of long-term debt	1,208.4	1,264.7	1,010.2	1,076.7

The following methods and assumptions were used in estimating the fair value of financial instruments:

Finance and contract receivables include both short-term and long-term receivables. The fair value estimates of finance and contract receivables are derived utilizing discounted cash flow analyses performed on groupings of receivables that are similar in terms of loan type and characteristics. The cash flow analyses consider recent prepayment trends where applicable. The cash flows are discounted over the average life of the receivables using a current market discount rate of a similar term adjusted for credit quality. Significant inputs to the fair value measurements of the receivables are unobservable and, as such, are classified as Level 3.

Fair value of long-term debt and current maturities of long-term debt was estimated, using Level 2 fair value measurements, based on quoted market values of Snap-on s publicly traded senior debt. The carrying value of long-term debt includes adjustments related to fair value hedges. The fair value of notes payable approximates such instruments carrying value due to their short-term nature.

The fair value of all other financial instruments, including trade and other accounts receivable, accounts payable and other financial instruments, approximates such instruments carrying value due to their short-term nature.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Note 10: Pension Plans

Snap-on s net periodic pension cost included the following components:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Service cost	$ 5.6	$ 4.8	$ 16.8	$ 14.5
Interest cost	13.9	14.2	41.8	42.6
Expected return on plan assets	(21.2)	(20.4)	(62.2)	(60.8)
Amortization of unrecognized loss	6.9	7.8	20.8	23.5
Amortization of prior service credit	(0.2)	(0.2)	(0.8)	(0.8)
Net periodic pension cost	$ 5.0	$ 6.2	$ 16.4	$ 19.0

Snap-on intends to make contributions of $7.1 million to its foreign pension plans and $2.3 million to its domestic pension plans in 2017, as required by law. In the first nine months of 2017, Snap-on made $61.2 million of cash contributions to its domestic pension plans consisting of (i) $60.0 million of discretionary contributions and (ii) $1.2 million of required contributions. Depending on market and other conditions, Snap-on may make additional discretionary cash contributions to its pension plans in 2017.

Note 11: Postretirement Health Care Plans

Snap-on s net periodic postretirement health care cost included the following components:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Interest cost	$ 0.5	$ 0.6	$ 1.5	$ 1.7
Expected return on plan assets	(0.2)	(0.3)	(0.6)	(0.7)
Amortization of unrecognized gain	(0.1)		(0.2)	
Net periodic postretirement health care cost	$ 0.2	$ 0.3	$ 0.7	$ 1.0

Note 12: Stock-based Compensation and Other Stock Plans

The 2011 Incentive Stock and Awards Plan (the 2011 Plan) provides for the grant of stock options, performance awards, stock appreciation rights (SARs) and restricted stock awards (which may be designated as restricted stock units or RSUs). No further grants are being made under its predecessor, the 2001 Incentive Stock and Awards Plan (the 2001 Plan), although outstanding awards under the 2001 Plan will continue in accordance with their terms. As of September 30, 2017, the 2011 Plan had 3,287,403 shares available for future grants. The company uses treasury stock to deliver shares under both the 2001 and 2011 Plans.

Net stock-based compensation expense was $7.0 million and $21.4 million for the respective three and nine months ended September 30, 2017, and $7.3 million and $21.5 million for the respective three and nine months ended October 1, 2016. Cash received from stock purchase and option plan exercises during the three and nine months ended September 30, 2017, totaled $1.6 million and $36.2 million, respectively. Cash received from stock purchase and option plan exercises during the three and nine months ended October 1, 2016, totaled $4.0 million and $32.4 million, respectively. The tax benefit realized from both the exercise and vesting of share-based payment arrangements was $0.8 million and $12.9 million for the respective three and nine months ended September 30, 2017, and $1.8 million and $14.9 million for the respective three and nine months ended October 1, 2016.

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Stock Options

Stock options are granted with an exercise price equal to the market value of a share of Snap-on s common stock on the date of grant and have a contractual term of ten years. Stock option grants vest ratably on the first, second and third anniversaries of the date of grant.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model. The company uses historical data regarding stock option exercise and forfeiture behaviors for different participating groups to estimate the period of time that options granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company s stock for the length of time corresponding to the expected term of the option. The expected dividend yield is based on the company s historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve on the grant date for the expected term of the option.

The following weighted-average assumptions were used in calculating the fair value of stock options granted during the nine months ended September 30, 2017, and October 1, 2016, using the Black-Scholes valuation model; there were no stock options granted during the three months ended September 30, 2017, or October 1, 2016:

	Nine Months Ended	
	September 30, 2017	October 1, 2016
Expected term of option *(in years)*	5.15	5.05
Expected volatility factor	22.01%	22.17%
Expected dividend yield	1.63%	1.77%
Risk-free interest rate	1.78%	1.04%

A summary of stock option activity as of and for the nine months ended September 30, 2017, is presented below:

	Shares *(in thousands)*	Exercise Price Per Share*	Remaining Contractual Term* *(in years)*	Aggregate Intrinsic Value *(in millions)*
Outstanding at December 31, 2016	3,011	$ 100.78		
Granted	655	168.71		
Exercised	(278)	87.00		
Forfeited or expired	(71)	153.52		
Outstanding at September 30, 2017	3,317	114.22	6.6	$ 127.7
Exercisable at September 30, 2017	2,108	90.90	5.3	122.5

* Weighted-average

The weighted-average grant date fair value of options granted during the nine months ended September 30, 2017, and October 1, 2016, was $31.13 and $22.99, respectively. The intrinsic value of options exercised was $2.0 million and $23.4 million during the respective three and nine months ended September 30, 2017, and $4.8 million and $22.2 million during the respective three and nine months ended October 1, 2016. The fair value of stock options vested was $14.0 million and $12.7 million during the respective nine months ended September 30, 2017, and October 1, 2016.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

As of September 30, 2017, there was $23.3 million of unrecognized compensation cost related to non-vested stock options that is expected to be recognized as a charge to earnings over a weighted-average period of 1.7 years.

Performance Awards

Performance awards, which are granted as performance share units (PSUs) and performance-based RSUs, are earned and expensed using the fair value of the award over a contractual term of three years based on the company s performance. Vesting of the performance awards is dependent upon performance relative to pre-defined goals for revenue growth and return on net assets for the applicable performance period. For performance achieved above a certain level, the recipient may earn additional shares of stock, not to exceed 100% of the number of performance awards initially granted.

The PSUs have a three-year performance period based on the results of the consolidated financial metrics of the company. The performance-based RSUs have a one-year performance period based on the results of the consolidated financial metrics of the company followed by a two-year cliff vesting schedule, assuming continued employment.

The fair value of performance awards is calculated using the market value of a share of Snap-on s common stock on the date of grant and assumed forfeitures based on recent historical experience; in recent years, forfeitures have not been significant. The weighted-average grant date fair value of performance awards granted during the nine months ended September 30, 2017, and October 1, 2016, was $168.70 and $138.80, respectively. PSUs related to 60,980 shares and 94,186 shares were paid out during the respective nine months ended September 30, 2017, and October 1, 2016. Earned PSUs are generally paid out following the conclusion of the applicable performance period upon approval by the Organization and Executive Compensation Committee of the company s Board of Directors (the Board).

Based on the company s 2016 performance, 45,502 RSUs granted in 2016 were earned; assuming continued employment, these RSUs will vest at the end of fiscal 2018. Based on the company s 2015 performance, 64,327 RSUs granted in 2015 were earned; assuming continued employment, these RSUs will vest at the end of fiscal 2017. Based on the company s 2014 performance, 78,585 RSUs granted in 2014 were earned; these RSUs vested as of fiscal 2016 year end and were paid out shortly thereafter.

Changes to the company s non-vested performance awards during the nine months ended Septem