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PRESENTATION

Operator

Good day and welcome to the Snap-on, Incorporated 2010 first quarter results conference call. At this time, all participants are in a listen-only mode. At the conclusion of our remarks we will conduct a question-and-answer session. (Operator Instructions) As a reminder this call is being recorded.

I would now like to introduce your host for today's conference call, Leslie Kratcoski, Vice President of Investor Relations. You may begin your conference.

Leslie Kratcoski - *Snap-on Incorporated - VP - IR*

Thank you, David, and good morning, everyone. Thank you for joining us today to review Snap-on's first quarter 2010 results which were detailed in our press release issued earlier this morning. We have on the call today Nick Pinchuk, Snap-on's Chief Executive Officer, and Aldo Pagliari, Snap-on's recently appointed Chief Financial Officer. Nick will lead off with his perspective on our performance. Aldo will then provide a more detailed review of financial results. After Nick provides some closing thoughts, we will take your questions. As usual, we have provided slides to supplement our discussion. You can find a copy of these slides on the Investor Relations portion of our website next to the audio icon for this call. These slides will be archived on our website along with the transcript of today's call.

Any statements made during this call relative to management's expectations, estimates, or beliefs or otherwise state management's or the Company's outlook, plans, or projections are forward-looking statements, and actual results may differ materially from those made in such statements. Additional information and factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC files. With that said, I'd now like to turn the call over to Nick Pinchuk. Nick.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Thanks, Leslie. Good morning, everybody. Well, we're once again encouraged with our results. We've continued to make operational gains and to strengthen our strategic position. Both have helped us deliver the results that are improving and I'd say are reasonable given the extended economic challenges.

Our first quarter operating margin before financial services was 11.6%, 210 basis points higher than the first quarter of last year. In fact, I think it's noteworthy that this 11.6% exceeds the first quarter record of 11.1% registered in 2008 and that was before the economic crisis, and the profits in that period were achieved at significantly higher sales levels. This shows our commitment to the Snap-on value creation processes is driving strong improvement. The financial results are a testimony to the power of that effort. With our focus on Snap-on value creation processes, safety, quality, customer connection, innovation, rapid continuous improvement, or RCI as we call it, we're becoming a stronger company and one that's well positioned to take advantage of any recovery, and we are seeing some positive signs, some good signs in certain markets. Those opportunities added momentum to the operating progress we've been achieving over the past several quarters. Aldo will take you through financials, but first I will provide you with a perspective on the results, my own perspective.

Regarding growth, our overall sales were up 8.6% from last year, over 4% organically excluding currency. As in the recent past, however, the results are mixed by geographies and by market segment. So I would say the quarter provides evidence that our overall markets have stabilized and are showing some signs of upward potential, but because of the varying nature of the results, they're not yet clearly rebounding. In the past, I've mentioned the trends in big ticket items, products with relatively higher sales value, tools storage units, diagnostics products as well as undercar equipment, items which have longer pay backs. We believe sales in that arena are a barometer of both our customers' financial outlook and of their confidence in their future.

Ending last year, the signs here were mixed. While in the first quarter sales were mildly positive in all three of those big ticket categories. So we have some good news but it's one quarter. Going forward, we're striving to create a reliable positive trend in those product lines. It's important to us.

We're also all aware that Europe was particularly hard hit last year in the downturn. Here again we saw some positive signs. Following on with the big ticket discussion our sales of undercar equipment in Europe posted gains, encouraging given the overall struggles of Europe and given the capital nature of those purchases. We also saw increases, however, in our European based hand tool business both sequentially and year-over-year. Encouraging here, too, was the fact that we saw some mild momentum in each month throughout the quarter. However, the mixed nature of the results are also evidenced in Europe. While we were encouraged by the overall gains south of Europe, (inaudible) has a particularly strong position and Spain especially continues to lag. Unemployment in that country is still very high and the drag is evident in the day to day commerce.

Another market segment that provides some gauge of the economy and one that gets a real lot of national attention is the automotive OEMs and their dealers. To put this market in perspective for Snap-on, we have limited direct exposure. Our equipment solution division, or EQS, and Snap-on business solutions, SBS, are where we do sell primarily OEM dealerships. Those businesses combined make up only about 11% of our total sales. That being said, this is an area that has obviously suffered during the current downturn. But on the positive side we are seeing some forward momentum with some new essential EQS tool programs, and we expect ongoing up side in that regard. SBS, however, continues to be impacted by the dealer consolidation. Now, both SBS and EQS have in fact achieved some progress by capturing adjacent business, serving commercial, construction, and agriculture markets as well as supplying products to truck fleets, all of which represents expanded opportunities. So there are offsets to the challenges of the OEM dealer shrink, and there's further opportunity in those adjacent spaces.

To summarize our view on the sales and market environment I would say we're encouraged, but cautiously. Signs are still a bit mixed. The markets seem to have stabilized but are not yet strongly rebounding. Gains are being made but those increases are coming off comparisons that were weakened by the overall downturn in 2009.

Now I will touch on the first quarter highlights in each of our reporting segments. In the commercial industry group our C & I organic sales were up over 9% from last year. We saw across-the-board increases in nearly all the businesses. The biggest contributors here were the equipment division, including Europe as I previously mentioned, and in Asia Pacific where our expanded product line is starting to take hold. From a profit increase perspective, C & I was a big contributor with operating earnings of over $30 million, up $13 million from last year. The OI margin of 10.2% marked a reasonably rapid recovery reflecting the higher -- I think, we believe, a reasonable recovery and that reflected the higher sales as well as the benefits from RCI and past restructuring actions.

Aside from the financial performance in the group, progress continues to be made in areas of strategic importance. The equipment division registered wins and agreements with more vehicle OEMs as preferred suppliers. This furthers Snap-on's presence in the garage and gives us a heightened advantage with access to quite a few additional locations. Our C & I presence in critical industries is also expanding. We introduced over 300 SKUs for large applications and natural resources and power generation, and there's more in the pipeline. We're working with customers in aerospace and government launching special tools and kits that incorporate rigorous and innovative safety features specially designed for those mission critical applications. Again in C & I, as I said earlier, we had good gains in emerging markets. It really is where the outside portions of automotive growth will take place and we continue to advance building the necessary physicals and creating a broad Asian product line. Just this past month we introduced a new handheld diagnostics product in China, our first such offering for the region and our new Asianized band saw product line continued on its strong upward sales trajectory.

Moving to the tools group, overall sales were up 4.3% organically, 4.4% in the United States. I mentioned the positive results for big ticket items, tool storage and high value diagnostics. We're working to make those gains a trend. The sales increase for the group, vigilance and operating efficiency and favorable currency result in a $7.5 million increase in OI, and an OI margin 10.7%, up 220 basis points versus last year.

Now, I've spoken often in the past regarding the importance of keeping our franchise system healthy. We continue working hard toward that end and it seems to be succeeding. The network is stable and there's evidence of improving franchisee health. Terminations are at a low level and van sales are moving in the right direction. Now, major element of support for the franchisees is the credit company. Aldo will speak about Snap-on credit, but I will just mention that it's transitioned to a wholly owned subsidiary continues as planned and without interruption to our customers. The credit business provides us with a strategic advantage. I'm pleased the integration is going well.

Now to the diagnostics and information group, or the D&I group. I've already mentioned some of the challenges faced by EQS and SBS with their ties to OEM dealerships. In spite is those impacts, however, D & I sales of $135 million were up slightly from last year. That's because gains were recorded in the independent shop segment with diagnostics, hardware and software, and our Mitchell 1 information products all showing strength throughout the period. D & I earnings of about $31 million were up $5.6 million and that reflects the higher sales both in handheld units and information product as well as some solid gains in efficiencies due to Snap-on Value Creation. Related to the D & I market expansion, we're adding fleet customers in the US for our heavy-duty diagnostics products. It's a target-rich environment, our existing capabilities extend nicely into that area and I believe we're using that to our advantage.

We're also leveraging D&I products and capabilities internationally. When you get outside the United States, the dealership space hasn't experienced quite so much disruption. In the first quarter we again saw success in capturing new international customers for the SBS electronic parts catalog line. We expect that trend to continue. That's the segment round up.

Regarding Snap-on's overall strategic position, we've characterized our current challenge, our challenge in the downturn as balancing cost reduction efforts, limiting the impact of the downturn with the need to invest in those strategic areas which we believe will be decisive for supporting growth going forward. Now, I believe there's abundant evidence in our results that the impact has been limited and break-even levels have been reduced. It's also clear to me we're better positioned in each of our four areas of strategic importance. The franchise network remains strong. Terminations are at a low level and sales are moving favorably. Regarding the primary customer base in that area, the automotive technician, our position remains preeminent with

Snap-on still the preferred brand across the board by a wide margin. We also target expanded penetration of automotive repair garage infrastructure as a strategic initiative. We've made progress with the shop owners and the managers, the principal customers in that segment. Our repair systems from electronic parts catalogs to imaging aligners have increased their customer base both in the US and internationally. An indication of that progress was the strong growth achieved by equipment division in the first quarter.

We have spoken often about the extraordinary opportunity for Snap-on to extend our position in mission critical industries, aerospace, power generation, natural resources to name a few. In the quarter, the industrial division where we pursue those critical customers, showed year-over-year growth against some reasonably tough comparisons. They entered the recession late.

Finally, we continued to build our position in emerging markets, growing distribution and expanding our local product lines. And we are seeing continued gain. Our sales in Asia Pacific were up substantially in the quarter, well ahead of any economic growth in the region. So we're encouraged by the first quarter. We've limited the impact of the downturn, improved our profitability, and positioned our operations strategically for growth.

Since this is Aldo's first call with us, I'll provide you with a brief introduction. Aldo brings over 30 years of experience in finance and operations, corporate strategy and business development to his new role as Snap-on CFO. He joined us in 2002 from United Technologies where he held a variety of senior level positions in both finance and business development. In his eight years at Snap-on, he played a significant role in leading our progress. He established a strong record of achievement and gained deep understanding of the Company's global operations and strategies. Most recently, he served as president of Snap-on's worldwide equipment and prior to that he was senior vice president for Snap-on's commercial industrial group with responsibility for the group's global financial operations. In short, he brings significant financial capabilities, operating experience, and strategic insight to his new position. With that I will turn the call over to Aldo who will take you through the financial details. Aldo.

Aldo Pagliari - *Snap-on Incorporated - CFO*

Thanks, Nick, and good morning to everyone on the call. Our consolidated operating results are summarized on slide six. Sales in the first quarter of $621 million increased 8.6% from first quarter 2009 levels. Without currency, organic sales were up 4.1%. As Nick mentioned, we are encouraged by these rules and by some of continues trends experienced in the quarter. Consolidated gross profit margin of 46.3% in the quarter increased 110 basis points from last year. Savings from previous restructuring initiatives and other cost containment actions contributed about $7 million, or 115 basis points of gross margin improvement. Gross margin was further aided by better sales mix, particularly diagnostics and information segment which improved consolidated gross margin by another 50 basis points.

Restructuring costs reduced 2010 gross margin by 40 basis points. Operating expenses of $216 million in the quarter while up $11.5 million from the prior year were favorable as a percent of sales by 100 basis points. On favorable currency translation, as a result of the weaker dollar, contributed about $7 million of the increase. In addition, higher pension expense due to lower than projected asset returns in previous years related to the US pension plan, accounted for $5 million of the increase.

First quarter 2010 results were also impacted by higher volume related expenses as well as by $3.5 million of higher mark to market incentive and other compensation. These year-over-year increases in operating expenses were partially offset by about $6 million in benefits from ongoing RCI restructuring and other cost reduction and cost containment actions. Restructuring costs in the first quarter of 2010 totaled $3.2 million as compared to $2 million last year. The significant portion of this quarter's restructuring costs again occurred in the commercial and industrial, or C & I segment.

Financial services incurred a $1.7 million operating loss in the quarter. As previously disclosed, Snap-on ended its joint venture with C IT in July 2009. The $1.7 million loss compares favorably with the $3.8 million loss in the fourth quarter of 2009 and the $5.3 million loss recorded in the third quarter 2009. Consistent with our issuance of $550 million of fixed rate long-term notes in 2009, interest expense increased $5.4 million year over year. The proceeds from these notes are being used for general corporate purposes including the January 12 repayment of $150 million of floating rate debt upon its maturity as well as funding the growth of the Snap-on Credit on balance sheet portfolio.

The effective income tax rate in both the first quarter 2009 and 2010 was 34.5%. As Nick mentioned, operating earnings of $71.7 million before financial services improved 32% over prior year on an 8.6% sales increase. Finally, net earnings of $36.8 million, or $0.63 per diluted share, increased from $34.8 million or $0.60 per share last year despite the $8.6 million or $0.15 per share of lower year-over-year net earnings associated with financial services. With that, I will now turn to our segment results.

Starting with the C & I group on slide seven, segment sales of $297 million improved 14.5% from prior year levels. Excluding $12 million of favorable currency translation, organic sales increased nearly $26 million or 9.4%. This year-over-year increase was driven by a mid-teens increase in sales of equipment worldwide, particularly higher sales of alignment machines in the Americas and Europe. Sales increases were also realized in our European-based tools business. We still face headwinds in this region but these higher first quarter sales may be evidence of some early stabilization in the European markets.

The year-over-year sales increase in the C & I also reflects continued higher sales in emerging growth mark and increased sales of tools, kits, and tool storage products to industrial customers. Gross profit in the C & I segment of $105 million increased $13 million from $92 million last year. This increase reflects contributions from higher sales, $4.3 million of savings from restructuring and other cost reduction and cost containment actions, and $2.3 million of favorable currency effects.

Operating expenses in the quarter of $74 million were essential flat year-over-year, savings from restructuring and other cost reduction and cost containment initiatives of $3 .2 million as well as some lower bad debt expense were partially offset by unfavorable currency translation of $3.5 million along with higher sales volume related expenses. As a percentage of sales operating margin in the C & I segment improved 350 basis points year-over-year from 6.7% to 10.2%.

Now, turning to slide eight, on a worldwide basis, year-over-year sales in the Snap-on tools group increased 8.9% or 4.3% excluding currency. Van count in the US at the end of the first quarter was stable compared to first quarter of 2009 and year end 2009 levels. Sales in the US were up 4.4% from the prior year. Gross profit in the Snap-on tools group of $113 million increased $10.7 million over prior year representing a 60 basis point improvement in gross margin. The year over year increase primarily reflects contributions from higher sales and favorable currency effects partially offset by inventory related and other expenses. Operating expenses of $85 million in the quarter increased $3.2 million from prior year levels primarily due to unfavorable currency translation and higher volume related expenses. As a percentage of sales, operating earnings of 10.7% in the quarter for the Snap-on tools group improved 220 basis points from 8.5% last year.

Turning to the diagnostics and information, or D & I group, on slide nine. First quarter 2010 sales $135 million were up 2% from prior year level, mostly due to currency. Excluding currency, organic sales were essential flat with prior year levels as higher sales of diagnostics and information products and increased facilitation program sales were partially offset by anticipated lower electronic parts catalog sales to OEM dealerships which have continued to be impacted by the challenges in the automotive industry. Gross profit margin of 51.4% in the quarter for D & I group improved 320 basis points over 48.2% a year ago, benefiting from an improved sales mix of higher margin diagnostics and software products. Savings from prior restructuring actions and $1.2 million of favorable currency effects also contributed to the $5.5 million year-over-year increase in gross profit.

Operating expenses for the group were relatively flat for 2009 levels. As a percent of sales, operating margin in the D & I group improved 380 basis points from 19% last year to 22.8% this year. Contributions from the improved sales mix and $3 million of savings from RCI, restructuring and other cost reduction initiatives were partially offset by $1.3 million of higher restructuring costs.

Turning now to slide ten, the year-over-year comparisons for financial services reflect the termination in 2009 of the Snap-on joint venture with CIT. As you know, since July 16 of last year, we are no longer selling loan contracts to C IT and recording the gain on sale. Rather, we are building, over time, an on-balance sheet interest yielding port folio. As the on-balance sheet portfolio grows so will our financial services earnings. The first quarter loss of $1.7 million for financial services was improved from the $3.8 million reported in the fourth quarter 2009.

Moving to slide 1 1. As of the first quarter end, our balance sheet includes $365 million in gross financing receivables from our Snap-on US Credit operation and $129 million from our international finance subsidiaries for a total financing receivables portfolio of $494 million. Within the US Snap-on Credit portfolio, $313 million related to extended loans to technicians. As you know, Snap-on Credit continues to manage the runoff portfolio of contracts owned by CIT which totaled $483 million at first quarter end. Snap-on Credit's on-book portfolio grew by $98 million in the first quarter 2010.

For the full year 2010, we presently expect that the on-book portfolio will grow by and therefore require net cash of approximately $300 million. The net cash requirements of our international finance portfolios are substantially self-funding. Portfolio loss and delinquency trends continue in to line with our expectations.

Turning to slide 12, consolidated operating cash flow for the quarter was $10.4 million. At the end of the quarter our cash position of $472 million was down from approximately $700 million at 2009 year end. This decrease primarily reflects the $150 million debt repayment in January and funding of new loans originated by Snap-on Credit. In the quarter, capital spending of $5.7 million was down from the $14.1 million spent last year. A higher level of capital expenditures in 2009, including spending to support the accelerated expansion of our manufacturing capabilities in Minsk, Belarus and the further expansion of our plant in Kunshan, China. Capital spending last year also included the construction of a new R&D facility and headquarters for our automotive parts and service information business in Richfield, Ohio.

As seen on slide 13, trades and other receivables increased $8.4 million from 2009 year end, primarily due to higher sales. Days sales outstanding for trade and other receivables of 63 days was flat with 2009 year end. Inventories at the end of the quarter increased $16.3 million from 2009 year end primarily due to seasonal inventory builds and increasing production levels. On a trailing 12-month basis, inventory turns were 4.2 times, slightly up from year end.

Net debt at the end of the quarter was $444 million. Our net debt-to-capital ratio of 25.9% compares to 22.2% at 2009 year end. If we exclude approximately $108 million of cash currently withheld related to the dispute with CIT, our net debt-to-capital ratio as of the end of the first quarter would have been 30.3%. In addition to our quarter end cash of $472 million, we continue to maintain a $500 million revolving credit facility which does not expire until August 2012. We also have another $20 million of committed bank lines. At quarter end, the full $520 million of borrowing capacity was available. In addition to these facilities, our current A2/P2 short-term credit rating allows us to access to access the commercial paper market should we chose to do so. At quarter end, no commercial paper was outstanding. Our liquidity position and access to credit continues to remain strong.

This concludes my remarks on our first quarter performance. Before turning the call back to Nick, I would like to review our outlook for the balance of 2010. For the full year, we continue to expect to incur restructuring costs of approximately $18 million to $22 million. At that time same time, we believe we will continue to realize further benefits in 2010 from our RCI sourcing and cost reduction initiatives. We also anticipate continuing with our planned strategic investments including expansion in emerging markets. We continue to anticipate capital expenditures in 2010 that will be in the range of $55 million to $60 million. We also will continue to incur $5 million per quarter of expected higher year-over-year pension expense. For full year 2010 we now anticipate an effective tax rate of approximately 34.5% which is slightly higher than the 33.5% estimate communicated at year end, primarily due to a higher mix of US earnings. Before opening the call for questions, Nick would like to provide some final thoughts. Nick.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Thanks, Aldo. Well, that's our perspective on the first quarter. Our commitment to the Snap-on Value Creation process is to safety, quality, customer connection, innovation, and RCI, it continues to pay off. OI was up 32% and the OI margin of 11.6% was strong compared with history on considerably lower sales. The markets have stabilized and appear to be favorably inclined, although it's way too early to call a clear trend. And our continued investment in the strategic customer segments, the franchisees and their technician, the repair garage owners and managers, the mission critical industries and the emerging markets of Eastern Europe and Asia Pacific are all reaping benefits. The bottom line is that because of our commitment to the Snap-on Value Creation process and because of our strengthening strategic position, we are confident that Snap-on is well poised to take full advantage of the recovery as it occurs.

Now I will end with a a word to our franchisees and associates. I know many of you are listening to this call. The results of the quarter were encouraging, but I know that they were only made possible by your capability, by your effort, and by your commitment to our team. You have my congratulations and you have my thanks. Now I will turn the call over to the operator for questions. Operator.

QUESTIONS AND ANSWERS

Operator

Thank you. The question-and-answer session will be conducted electronically. (Operator Instructions) We'll take our first question from Jim Lucas with Janney Montgomery Scott.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Hi, Jim.

Jim Lucas - *Janney Montgomery Scott - Analyst*

First question with regards to currency, was hoping you could just help us out with translation versus transaction. With gross profit referring to currency being favorable yet operating expenses currency being unfavorable and with the continued fluctuation in the dollar, if you could give us a little bit of color what you're seeing there?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Well, I can start out, and maybe Aldo can roll in. I think what we saw in the quarter year-over-year was positives with the Canadian dollar where we sell, and we also buy some out of our Canadian plants, but we're positively exposed there, and around the pound. And those two currencies tended to be quite favorable for us and that generated the positive events here. Going forward, we see the same events around Canada, but the pound has started to weaken some, so we could see some headwind in that situation. If you are thinking about currency in terms of translation, our translation numbers in the first quarter on sales would have been about, I think if you add them all up, $24 million, and operating expenses would be something $6 million to $7 million on a negative basis.

Jim Lucas - *Janney Montgomery Scott - Analyst*

That's helpful. And then starting first on the C & I side, some very good color about the ongoing investments, very helpful commentary surround what you're seeing on the equipment and the big ticket side. Could you talk a little bit about what you are seeing in terms of restocking versus overall demand, whether by geography or end market?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

I don't think we're seeing any restock, to tell you the truth. I think people are snake bitten over the past recession so we're not seeing any evidence in the United States where we sell through another level, whether you're talking the about our franchisees or you're talking about distributors outside the United States, we're not seeing evidence of restocking. So none of that we believe is in our numbers. Quite a few of our businesses, for example, the industrial business is direct so restocking wouldn't be a factor in that situation. The big question for us has always been Europe about restocking and destocking and we certainly haven't seen any restocking in Europe. The destocking seems to have ended in certain parts, particularly in terms of the north. The south continues to be sliding. Spain, the markets in Spain, if you look at that time GDP in Spain, it's still going south.

So what we see is no restocking, an ending of destocking in the north of Europe, some minor I guess continuing weakness in the south, and we just haven't seen the market snap back to the point that we expect people to restock. I'm not sure when that will happen, Jim. Our talk, when we talk to contributors, or I talk to franchisees, they all have their, to use an American expression, their Missouri hat on. They are in "show me" territory. So I think they're going to have to see quite a bit of time go by before they enter restocking.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay. Switching gear to the tools group, if you could talk a little bit about, you referred to the terminations down, plans and terms of adding to the franchise count this year, also where the van count stands currently, and then secondarily from a mix standpoint, could you give us any more color of what you're seeing on hand tools versus power tools versus storage boxes?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Yes. Van count has been pretty stable. It is give or take 3,460 in the United States. That's about where it was at the end of December. Terminations are at an all-time low, but you could say we're not capturing any. We're not increasing on that because we're not gaining even though the terminations are at an all-time low. We're being -- I would add quickly though we're being very selective about people we add to vans. As you know, Jim, we had difficult experiences when we put people in vans that might have been not appropriate or not as I guess born to do that kind of business so we had some difficulty when they ended up having some -- not he being successful. So we've been stable there. Our plans are still to expand that business and we're continue to work to refine our recruiting models to make sure we can move forward and build that van count. In terms of mix, hand tools were up slightly in the quarter. Remember that hand tools never really went down very much. It was all tool storage and big ticket items. So the mix of tool storage and diagnostics you can pretty much say that the increases quarter over -- for year-over-year, are rooted in tool storage and high-value diagnostic units. Power tools was down slightly but that has to do more or less with the timing of model introductions.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay. Great. Thank you very much.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Okay.

Operator

(Operator Instructions) Next, we have David Leiker with Robert W. Baird.

Keith Schicker - *Robert W. Baird - Analyst*

Hi. Good morning. It's Keith Schicker on the line for David.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Keith, how are you?

Keith Schicker - *Robert W. Baird - Analyst*

I'm well, thanks. I just wanted to start sequentially with the tool segment. It looks like revenue was up about $13 million sequentially Q1 versus Q4 and operating profit split a little bit. Could you provide a color on that variance there?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Yes. First of all, we had a record. I believe probably an all-time record OI margin in the fourth quarter for the tools group. So was gang busters. So we knew we had tough comparisons if you are going go sequentially. We had our volume rise up, so we got some pop out of volume, a little bit of absorption. Much of that business was big ticket items which tend to be ironically a little lower in absorption because there are components purchased more than a hand tool. A hand tool tends to be big labor, big machines, high fixed cost. Diagnostics tend to be components purchased and assembled so we did get a volume push but the absorption might not be as much as you might expect if you were modeling this. We had favorable LIFO in the fourth quarter which I think he we called out in our release, which basically accrues to the tools group. In the first quarter in the tools group you do have a launch, we have kickoffs around the country so there's a little more expense there. Then to be fair, I think I would say that we wanted to get jump started into the year with those big ticket items because we thought that would lead the way so we promoted them relatively aggressively. So when you put all that together, that ended up blunting some of the drop-through you might expect off the volume increase.

Keith Schicker - *Robert W. Baird - Analyst*

Perfect.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Okay?

Keith Schicker - *Robert W. Baird - Analyst*

Yes, that's great. If we look at the commercial and industrial segment, a and this is a difficult question, but the margin improvement there, would you attribute more of that to getting more volume running through the model or would you attribute more of the margin improvement to some of the cost actions that you've taken in that part of the business?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Well, think it's both situations. The commercial industrial division has been, I think, throughout the years, three or four years, pretty much our poster child for rapid continuous improvement. We did get nice drop-through on some of the volume, but you don't get that kind of pop, I think we went from 6.7% OI margin to 10.2%. You don't get that just from volume. So there was good drop-through because we had some nice sales in alignment and so on which are high profitability, high margin products, but we also had some great RCI benefits. So I would say both were big factors.

Keith Schicker - *Robert W. Baird - Analyst*

You wouldn't single out one or the other as being -- ?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

No, I would not. They got a nice increase in volume. That's a good thing. I think the drop-through was very high, so you can make the calculation based on that.

Keith Schicker - *Robert W. Baird - Analyst*

Okay. And then two more quick ones hear. Have there been any issues that you've had with the closure of the airspace in Europe from a business perspective?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Yes, a couple of our guys are trapped in Paris for days and they're running out of clothes. That's pretty much -- so far, we haven't had too much. Actually, it's kind of -- I made kind of a joke about, but there are people trapped there. We had some training planned that's been put on hold so that's an issue. I don't see us having a problem. I think if you look forward, we could have a problem if we ran out of things that we needed to air ship. And Europe would be less of a problem than if this extended to Asia, let's say. To put it in perspective, we spend $90 million a year in freight, $5 million of it is air. So it's not a huge problem for us. It could create some irritants in certain product lines and certain places but with you don't see it being an issue right now.

Keith Schicker - *Robert W. Baird - Analyst*

Okay. And the last one, it's still relatively early here in the second quarter but if you could just comment on some of the end market trends you have seen really early in the quarter here?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

A couple things. One is that we don't see much seasonality in our business except for the third quarter. Our third quarter tends to drop pretty much because of Europe, because of our dependence on Europe. Some of the markets in the United States, van drivers take vacations in the third quarter from time to time so we do see a weak third quarter, but by and large not much seasonality going from first to second so there's not much of a tail wind in that regard.

Looking out to the future, I think I stand on what I said in my remarks. We think the markets are leaning positively. But it was one quarter and in those numbers are some extension to new adjacent segments like capturing customers in Europe for the EPC and reaching out to new OEMs and equipment. There's probably some market share gain in our growth number, in that 4% growth number as well. I think I've learned in future recessions not to make any future calls. All I can say is the market seems to be leaning positively, but I'm still from Missouri, that has shown me on looking forward for any kind of recovery. One thing I can say is, wherever it happens, we're poised to take advantage of it.

Keith Schicker - *Robert W. Baird - Analyst*

Okay. And do you think these market share gains are something that can continue or would you rule that out? Or how should we think about that?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

I said market share. It's always danger to talk about market share gains for a quarter. These are simply new customers that we captured. Actually, we can capture new customers. That's what our strategic initiative is all about. That's what penetrating the garage, repair garage owners and managers is about. That's what is extending to mission critical industries is about. That's what building in emerging markets is about. It is, after all, share gain. So we believe very strongly that we've taken the actions and building capabilities in product lines and physical distribution to be able to take advantage in those areas which are pretty much adjacent for us as the recovery occurs.

Keith Schicker - *Robert W. Baird - Analyst*

Okay, that's great. Thank you very much.

Operator

Next we have Gary Prestopino with Barrington Research.

Gary Prestopino - *Barrington Research - Analyst*

Hi. Good morning. It seems to me just a little bit more optimism expressed here relative to the past conference calls I've been on, Nick. I just went through my notes. Just want to make sure I'm right. You basically said some of the big ticket items, particularly in Europe, you were seeing some mildly positive sales gains in tool symptoms, diagnostics, undercar. Is that correct?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Yes, what I said was I'm seeing increases in tool storage and high value diagnostics. That more refers to the United States than Europe. Equipment I meant both developed markets, United States and Europe.

Gary Prestopino - *Barrington Research - Analyst*

Okay. Are these sequential or year-over-year?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

They are year-over-year and for tool storage and diagnostics they are sequential. Equipment had a gang busters quarter in the fourth quarter so I would say it's about flat.

Gary Prestopino - *Barrington Research - Analyst*

Okay. And then also you kind of mentioned that some of the more southern European countries you're dealing with, Italy, possibly Greece are still having issues?

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Nick Pinchuk - *Snap-on Incorporated - President, CEO*

No. Spain.

Gary Prestopino - *Barrington Research - Analyst*

Spain. The northern European countries are starting to at least stabilize?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Yes. We're looking better in the north, UK, Sweden, France is looking a little better for us. Spain, the reason I mentioned Spain, Gary, is that S&A Europe has a significant portion of its business in Spain. It's the leading market player in Spain and so for us Greece, okay, kind of interesting, we sell there but it's not such a big factor. Italy is some factor for us but Spain is a significant challenge for us, and we see the Spanish market continuing downward.

Gary Prestopino - *Barrington Research - Analyst*

Okay. Could you just remind us what your percentage of sales are to Europe and US and what would you categorize emerging? Do you have that handy?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Yes, off the top of my head, 42% outside the United States, I would say it's 26%, 27% in Europe. You might say Asia Pacific, 8% to 10%, something like that, 10%.

Gary Prestopino - *Barrington Research - Analyst*

And in Asia Pacific, which is probably more your emerging markets, what did you see there particularly?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Booming. We saw great -- smaller base, though. Smaller base. When I'm talking about Asia Pacific, when I'm quoting the numbers Asia Pacific I'm talking about Japan which is a much more stable market. But when I talk about the emerging markets of Asia Pacific, I'm talking about China, India, (inaudible) all where we've been building our physical presence and expanding our product lines, where we add the diagnostics in China, where we provided the Asianized band saw. Those businesses, our business in the emerging markets of Asia were up substantially, well ahead of any GDP growth in those areas. The GDP growth was pretty robust. Now again, Gary, it's off a smaller base but we're pretty encouraged by that.

Gary Prestopino - *Barrington Research - Analyst*

Okay. Last question, I mean, how has the -- if we are truly coming out of this worldwide recession, how has -- ?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

I didn't say that.

Gary Prestopino - *Barrington Research - Analyst*

What?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

I didn't say that.

Gary Prestopino - *Barrington Research - Analyst*

No, I'm saying that.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Okay.

Gary Prestopino - *Barrington Research - Analyst*

My prediction. But if we are, how is the performance bit of your business line different now or coming out of this relative to where it has performed in past recessions coming out of it. Is there any big difference? Has it always been choppy by country? Or is there something you can point to that's significantly different that is giving you cause to be cautious here?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Well, we've had -- no, actually, nothing that's giving us cause to be cautious out of that. I think if you're asking me how I feel about this, there's couple of things. One is I feel, boy we brought down our break even.

Gary Prestopino - *Barrington Research - Analyst*

That's good.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Secondly, the recession put everybody on stall a little bit. We've had chance to build our strength in places. So I think we're actually -- we kept investing, so I think we're in better shape perhaps than maybe some others are because we kept investing. We didn't take capacity out in Europe. We kept it in place. Remember, we talked about that in the prior calls. We kept -- because we were confident that the markets were going come to back. We kept building in Asia Pacific while maybe it was a tough time for some others. So I think -- and building our product line and building our product lines for critical industries. We kept expanding our product lines throughout the recession. So I feel pretty good about the positioning. The only difference for us, I'd say, is that Spain, one of our markets, one of our more major markets in Europe is unusually weak. That's about only difference about our business versus any other time.

Gary Prestopino - *Barrington Research - Analyst*

Thank you.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Sure.

Operator

I do show we have no further questions at this time. I will turn the call back over to Leslie Kratcoski for any additional comments or closing statements.

Leslie Kratcoski - *Snap-on Incorporated - VP - IR*

Thanks everyone for joining us this morning. A replay will be available shortly on our website. As always, we thank you for your interest in Snap-on. Have a good day. Bye.

Operator

That does conclude today's conference, and we thank you for participating.