FINAL TRANSCRIPT

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SNA - Q2 2008 Snap-on Incorporated Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentleman, and welcome to the 2008 second quarter results conference call, hosted by Snap-on Incorporated. (OPERATOR INSTRUCTIONS) 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, Mr. Marty Ellen, Chief Financial Officer. Mr. Ellen, you may begin your conference.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Thank you, Stephanie, and good morning, everyone. Thank you for joining us today to review Snap-on's second quarter 2008 results. By now, you should have seen our press release issued this morning. Despite challenges in both the US economy and commodity price inflation, we believe that our second quarter results continue to demonstrate the soundness of our business model and the progress that is being made in many of our core operating and growth initiatives. We will discuss these with you today.

Joining me is Nick Pinchuk, Snap-on's President and CEO. Nick will kick off our call this morning with his perspectives on our strategic initiatives. I will then provide a review of our financial results. Afterwards, we will take your questions.

Consistent with past practice, we will use slides to help illustrate our discussion. You can find a copy of these slides on our website next to the audio icon for this call. These slides will be archived on our website, along with a 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 the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings.

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With that said, I will now turn the call over to Nick.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Thanks, Marty. For those of you following the slides, my comments start on slide number 5. I think that we can say that the second quarter for Snap-on was another encouraging period. I believe it represents further and clear evidence of our continuing progress. Sales were up 7.6%. Earnings per share grew almost 28%. And our operating margin reached 14.2%. That's up 220 basis points over the last year's second quarter. So, needless to say, it was a positive result. And that, I think, particularly true given the increasing economic challenges we see in the environment today.

I am going to be landscaping that progress in more detail, but before I go further, I want to thank our associates and our franchisees. Your considerable capability and your extraordinary effort made these results possible. My congratulations and my thanks to all of you. I feel fortunate to be part of your team.

So, let's review the second quarter. It is clear every day that these can be uncertain times. We're reminded of that with almost every newscast. But against these difficulties, we believe Snap-on has considerable offsets. Growing global position with strength in Europe and North America and expanding presence in emerging markets. A diverse set of customers from automotive repair to aerospace to natural resources. Those are industries that follow a varied set of macros. We are also well positioned with almost legendary brands, and for a number of quarters we have demonstrated a continuing capability of creating strong value through relentless and repeatable innovation, fairly passionate customer care, and of course, Rapid Continuous Improvement. Those are strategic advantage and capabilities that are quite valuable, especially in the uncertain environment we face today.

And our second quarter was a demonstration of those strengths. To detail some of the progress, we are growing globally. Snap-on sales outside the United States are now 46% of our total, up several points from last year. And each of our major regions - North America, Europe and Asia Pacific - grew in the period, even after neutralizing the affect of currency translation. In the emerging economies of Asia and eastern Europe, growth was 17% and these markets now comprise over 8% of our sales.

You know, it is still relatively early days, but we are very encouraged by the success in those areas. And we see further opportunity to keep investing, keep building our physical capability. In fact , some of the increase in capital spending that we registered so far this year, and the reason we are guiding our full year up modestly, is to support the growth in those strategic feeders. For example, our factory in Kunshan, near Shanghai, is now producing power tools, under-car equipment and hacksaws. Those of you listening might recall that we recently transferred some of our state-of-the-art hacksaw technology from Sweden to China. It was a tough transfer, but it was successful migration and we're now selling quite well out of that factory with that great product. So now, bolstered by that success, we're expanding again - to manufacture tool-storage in Kunshan. That production will be targeted at both western and asian markets where we see ample opportunity. And with last quarter's acquisition of our 60% interest in Wanda Snap-on in Zhejiang, China, we now have, in region, capability to manufacture a full range of lost cost, high quality hot forged hands tools.

Besides manufacturing we are also aggressively expanding the sales and distribution network throughout Asia. In fact, we expect to have a network of over 600 resellers by the end of this year, and that is up 50% over last year.

Eastern Europe is sometimes an overlooked area. We just approved a relocation and expansion of the plant in Minsk. Our existing facility in that city, for several years, has demonstrated it can produce some of the highest quality and lowest cost cutting products in the world. When I tour that factory, I like what I see in the work force. So we are doubling down our investment in that area. There is abundant opportunity in eastern Europe for Snap-on. We have an encouraging start in the region and we are going to take full advantage.

So, you see we have substantial runway in emerging markets. Potential thats very right for Snap-on products and value. Those markets are all growing and they're still unclaimed. So we will continue to pursue aggressively and we saw some of that positive effect in the second quarter.

Let's move on to slide 6. Beyond geography, the overall diversity and strength of our customer base has served us well again this quarter. Now clearly, our US franchise business faced some head-winds - decline in home prices, rampant increase in things like fuel, energy, and food does have an impact. That said, we continue to believe that the vehicle repair industry is more resistant to downturn than many other sectors.

Sales of new cars, to be sure, have declined dramatically. And the recent data suggests that a 2% to 4% decrease in miles driven in the US has been a reaction to the rise in the gasoline price. However, published data also does report that there's been an increase in spending in automotive repair. And it further indicates a modest real increase in technician wages. Now, there is a logic to this phenomena - with new car sales down, the car parts does get older. Almost 40% of the US cars are now greater than 10 years old and much of the driving in the United States is not discretionary. Therefore, vehicle repair is a continuing necessity from that perspective. And so from that perspective, the increase in repair spending, even in the face of economic slow down, is not really a surprise.

We do recognize, however, that our customers, the automotive technicians are also consumers. In this environment, they are more deliberate in their spending. Therefore, not surprisingly, sales of higher priced tool storage products, which are more discretionary purchases than hand and power tools, those continue to be weak in the quarter. They continued weakness in the quarter. And that softness accounted for about half of our reported 4% sales decline in the US van business.

Our sales of equipment and diagnostics were similarly impacted. It makes sense, those products are more like capital investments and traditionally they are a tougher sell in uncertain times. Now, as you might guess, though, I want to landscape the United States for you, in terms of the van business. As you might guess, the results aren't uniform across the country. In certain regions of the US, mostly in the central and the midwest, our franchisees are reporting, on average, mid-single digit growth rates. However, in regions like the southeast and southwest, where home prices have suffered the most, and consumer confidence is the lowest, our franchisees are having a more difficult time, and there is a clear decline. So what you're seeing from the Tools Group, is a downturn in troubled regions, and a softness in bigger ticket items - offset, somewhat, by the other parts of the United States and the International businesses.

What is challenging, though, for all our franchisees across the country, are higher fuel prices. But the corporation, all of us, are working hard to mitigate the problem. We are aggressively using our RCI and the innovation process, our two cornerstones of the way Snap-on creates value; we're using those tools to find ways for the franchisees to offset the fuel cost increase. And it's having a positive effect. We've identified some real efficiencies, and offset some of those costs. And we will keep working hard to maintain our franchisees profitability in the weeks and months ahead. They are important to us.

We are often asked about van count, the US van count. Well, it was flat in the quarter and remaining down about just a little over 1% versus last year. Now terminations did improve, but the count remains flat because we have raised the standard for accepting new franchisees. Being more selective has played out in reducing first-year franchisee problems and that has been positive. But it's made it harder to expand. And as a consequence, the overall franchisee number has not risen. We do believe, however, the open territories still represent a considerable opportunity. We have been and we are continuing to employ significant resources in both franchise recruitment and training. And, we are confident we will see the van count increase going forward the second half of this year.

So, while the Snap-on Tool segment of our business is more challenged, other customers in other market segments are generating substantial growth. In the US industrial business, the focus on critical buyers - the military, aerospace, natural resources and the automotive vocational training sector - once again, this quarter, that focus contributed substantial growth to the Commercial and Industrial segment. Overall, the US Industrial business grew 25%. That process is quite encouraging.

I think it is important to note that that expansion reflects Snap-on's direct industrial sales force. It is probably the most powerful in the industry, and sometimes overlooked. We believe it is the most powerful in the industry with more than 500 well-trained professionals. They consider themselves solutioneers, and that they are. They provide tailored product solutions for the specific needs of their customers and it is having substantial success even in this environment. In the broad Industrial segment, customers value the productivity that comes from Snap-on Solutions and our unique direct sales force delivers that value. So we see abundant opportunity in Industrial going forward and we believe we are uniquely positioned to take advantage.

Moving outside the United States where economies are somewhat less challenging, we are able to achieve fairly solid growth - not only in emerging markets, but developed ones as well. Strong double digit growth was achieved in our international franchise business - in the UK, Australia, and Japan, as well as in our European Diagnostics business. And despite the the slowing of many of the major economies in Europe, our European Hand Tools business, SNA Europe, was able to grow 3.5% in the period, without counting the benefits of the strengthening currency.

So clearly, diversity of both geography and market segments is providing us with a platform for balanced growth. I should add, that our portfolio's strong and well-positioned brand is also a major factor. Whether it's Snap-on Tools in the automotive and in the industrial sector, or Bahco saws and wrenches in both industry and professional trade, our brands speak of reliability, design, and productivity-enhancing attributes that provide strong customer value. And beyond that, our expanded mid-tier products are also working as expected. They're adding to our reach and building our penetration in broader segments. So Snap-on, Bahco, and Blue-Point, and our other corporate brands are recognized widely as making work easier and helping our customers make more money and that plays out well in every environment.

Moving to slide seven. Regarding product innovation - it has been our heritage and it has been our hallmark. And it has never been more important than in slow economic times. It's clearly helping stimulate our growth, and it is also helping drive cost reduction. Yes, innovation can drive costs reduction, too. Let me give you a few examples. In our power tools business, which is a critical supplier to our franchisees, our new half-inch impact wrench, which exceeds 800 pounds of torque, and our new three-eighths inch cordless impact wrench - both lead the industry in power-to-weight ratio. These tools were both introduced this year and both are big sellers. They both give -- and this is important in the situation -- they both give our franchisees and salesman something exciting to sell and both have been major contributors to the strong growth in that category.

We've consistently said, I think, that hand and power tools are the purchases that translate immediately into productivity improvement. When technicians make tough choices in an uncertain economy, they tend to choose products like the professionals -- like our professional tools, that will help them expand the prospects. And hot new innovations, like the two power tools I've mentioned, help amplify that tendency. That means that purchases in those product segments are more resilient to uncertain economies and, in fact, all of that is playing out in our results, even in that market.

Beyond power tools, we have also recently upgraded our versions of the Modis and the Solis handhelds in our Diagnostics business, extending their technical leadership, and indications are quite positive. And we are also just -- and I am excited about this -- we're also just launching our new imaging aligner. It features patented imaging technology with great value, and our early returns from customers in both North America and Europe seem to conclude -- confirm that conclusion. And those are just a few examples of Snap-on innovation at work.

Going forward, in any environment, we plan to keep investing in innovation at a strong pace across all our businesses because we know it will pay off. We are increasingly working to improve the processes that create value through innovation, listening to the voice of the customers through our franchisees - we have 3500 of them, scattered throughout the United States and 4700 worldwide - through field research and through our unique Snap-on innovation centers, where we -- New innovation centers which we are putting up in the corporation, where we study the way our products create better solutions. We are confident that those types of process improvements will help continue and help expand the parade of cost effective products that will make our customers more productive and, importantly, more profitable.

A rapid continuous improvement, our RCI initiatives, also help strengthen our operating platform in the period. They created more value for our enterprise, just as they have in multiple quarters past. A good example is the complete-and-on-time deliveries for our US distribution system, or COT as we call it. COT reached about 96% at the end of the second quarter, up from 94% last quarter and up from substantially lower just a few years ago. That's good progress. But as I said on many other calls, our goal is 99%. We are not giving up. So we have a long way to go. More way to go, anyway.

And I suppose, one of the most important issues of the day is commodity cost inflation. It is a challenge for every business. For us, we are most vulnerable to the rising cost of steel and fuel. In the second quarter, we estimate that the cost increases for Snap-on were about $6 million over last year, and the pain will probably approach $10 million next quarter. But in the second quarter, productivity improvements from the RCI initiatives and our selected price increases combined to cover that inflation and then some. In fact, the significant component of our second quarter results was the improvement we saw from RCI. And while we expect commodity-caused pressures to increase going forward, we believe we will be able to offset them because RCI is part of our everyday. And because we continue to see, as we go around the corporation, we continue to see very abundant opportunity for improvement. In the second quarter, our productivity improved by over 10% versus 2007 and we see that trend continuing.

So, as I said, the second quarter was an encouraging period. It was further confirmation of the strength of the business model, the breadth of our operation, and our capability for improvement. We were quite encouraged.

Now Marty will take us through some of the details for the results.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Thanks, Nick. Turning to slide nine, net sales of $766 million in the quarter increased $54 million or 7.6%. Currency translation contributed 4.5%. Strong growth contributions this quarter came from sales of tools and equipment to commercial and industrial customers worldwide, emerging market growth, and increased sales of higher margin diagnostics and information products. Sales in our international franchise operations also increased, up 18.2% without currency. Given the economic head-winds in the US, our franchisee sales were down 4.1%, particularly in sales of big-ticket tool storage and other products.

As in prior quarters, our OEM essential tool and facilitation business experienced $13 million of lower sales due to the lapping of certain 2007 OEM programs. This negative OEM comparison reduced our global growth rate by 2%. Consolidated gross profit of $346.5 million was up $24.1 million, compared to the second quarter of 2007. The gross profit margin of 45.2% was relatively flat compared to last year. Pricing improvements and benefits from RCI initiatives covered steel, freight and other product cost inflation. Offsetting these improvements in gross margin was the less favorable sales mix in the Snap-on Tools Group. In addition, lower restructuring the $5.7 million benefited the gross margin.

Operating expenses of $245.6 million in the quarter were up $5.5 million from 2007, including $9 million of unfavorable currency translation, $1.7 million of inflationary cost increases, and $1.2 million of higher restructuring costs. These increases were partially offset by $3.9 million of lower franchisee termination costs, and $3.5 million of benefits from RCI initiatives. As a percent of sales, operating expenses improved 160 basis points, to 32.1% in the second quarter, as compared to 33.7% last year.

In our Financial Services segment, operating income improved $5.7 million, primarily reflecting lower market interest rates. Operating earnings of $111.7 million for the quarter were up 27.8% from 2007, with currency translation contributing $2.3 million of the $24.3 million increase. Operating earnings as a percent of total revenues improved to 14.2%, up 220 basis points from the 12% percent earned a year ago. Interest expense in the quarter is down $2.9 million, primarily as a result of declining interest rates on our floating rate debt and lower average debt levels in the quarter. Our effective income tax rate on earnings before equity earnings and minority interests is 33.1% in the second quarter. We anticipate that for the full year this rate will be 33.3%. Diluted earnings per share from continuing operations of $1.15 in the quarter were up nearly 28% from the $0.90 earned last year.

With that as an overall summary, I will now turn to our segment results. Starting with the Commercial and Industrial group on slide 10, segment sales of $387.7 million in the quarter increased $456.1 million over 2007. Currency translation added about $25 million. Excluding the currency, sales were up 9.4%, which included higher sales to industrial customers, increased sales of power tools and imaging alignment systems, continued strong sales growth in emerging markets, and higher sales of professional tools in Europe. Second quarter operating earnings of $49.3 million for the segment were up $16.8 million, or 51.7% from prior year levels. Currency translation contributed $1.5 million of the increase. Also contributing to the year-over-year earnings increase were higher sales and pricing, including a 21% increase in sales in our worldwide Industrial business, and $5 million of lowering structure costs. Savings from RCI and cost reduction initiatives offset $3.7 million of commodity and other cost increases. As a percentage of sales, operating earnings in the C&I segment improved 290 basis points in the quarter to 12.7%, from 9.8% last year.

Turning now to slide 11, the Snap-on Tools Group reported second quarter sales of $292.8 million, which was up $8.8 million or 3.1% from prior year. Currency translation contributed 1.9%. The Group's international operation reported double-digit growth, led by a strong performance in the UK and Japan. Sales in the US, however, declined 4.1% for the reasons Nick already mentioned. Second quarter operating earnings for the Snap-on Tools Group of $35.3 million, were up $600,000 from prior year levels. Pricing and RCI improvements, net of cost increases, coupled with less favorable product sales mix, in total reduced the gross margin by about 100 basis points. Additionally, there was about a 100 basis points reduction in gross margin representing profit transferred to other segments as a result of higher sales of their products by the franchise channel. While currency translation added $1.6 million to reported operating expenses, reduced franchisee termination costs were a major factor in the improved operating expense comparison. As a result, operating earnings of 12.1% of sales in the quarter for the Snap-on Tools Group were essentially flat with prior year levels.

Turning to the Diagnostics and Information Group, which is shown on slide 12, second quarter sales of $164.8 million were essentially flat with prior year levels. Higher diagnostics sales in Europe, increased sales of Mitchell 1 information products, and $2.9 million of currency translation were more than offset by lower OEM program sales. As we have said in the past, revenue comparisons for the OEM business are influenced by the timing of these OEM programs. As a result of two major programs last year, this year's comparison reflects a $13.2 million sales decline. This comparison is expected to be substantially better in the third quarter. Excluding these OEM programs, the Diagnostics and Information segment grew 8.8%. As a percentage of sales, operating earnings of the quarter of $31 million, improved to 18.8% from 17.7% in the second quarter of 2007.

Turning to slide 13, our Financial Services segment revenues were $18.3 million, compared to $14.8 million last year, while income from Financial Services rose from $5.1million last year, to $10.8 million this year. The increase in both revenues and income relates primarily to our US credit business. The major contributor to the earnings improvement was the year over year decline in market interest rates, with the discount rate on extended credit contracts down 230 basis points.

Now let me turn to a brief discussion of our balance sheet and cash flow. As seen on slide 14, our accounts receivable and inventory levels increased $86 million from year-end levels, with about $27 million of the increase coming from currency translation. Day sales outstanding increased by one day to 74 days from both year end and June 2007 levels, primarily due to a shift in business mix that includes higher levels of international receivables, which typically have longer payment terms.

Inventories increased primarily to support anticipated sales growth, including higher levels of inventory for industrial customers and to support our growth initiatives in emerging markets. Our net debt position at the end of the quarter is $383 million, which is down from $425 million at year end 2007. Our net debt to capital ratio of 21.3% is down from 24.9% at year-end 2007.

Turning the slide to 15, cash provided by operating activities in the quarter was $80.5 million and free cash flow was $62.6 million. The contribution to cash flow from the higher earnings was partially offset by the higher level of receivables and inventory, shown on this slide as part of the charge in operating assets and liabilities.

This concludes my remarks on our second quarter performance. Now, I would like to briefly review with you some financial considerations for the balance of 2008 which are shown on slide 16. With respect to full year 2008, we expect to continue to invest in our growth initiatives, including further investments in Asia and other global emerging markets. We also expect to continue implementing our other strategic and RCI initiatives intended to enable higher levels of growth and profitability. We anticipate full year 2008 restructuring costs to be in a range of $13 to $16 million, down from the previously communicated $15 to $20 million. And we now expect capital expenditures to be in a range of $60 to $65 million, up from the previous $55 to $60 million, primarily to support the growth initiatives Nick mentioned. And as I said, we also expect our 2008 effective income tax rate on earnings before equity earnings and minority interest to be about 33.3%. As a result, we expect that sales and operating earnings will improve over 2007 levels for the balance of the year.

Before opening the call for questions, Nick would like to provide some final thoughts.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Thanks Marty. Our second quarter did have some challenges - economic head-winds yielding a softness in big ticket sale in the US, commodity costs increases, and the wind down of the OEM essential tools programs. Despite that, we did have an encouraging period. Our growth strategies, reaching globally and expanding in critical industries that value productivity, those initiatives served us well. And the performance was also an indication that the Snap-on way of creating value in our space, relentless innovation and Rapid Continuous Improvement helped us overcome the difficulties of the day. As for the rest of the year, we know our businesses are not immune to economic conditions, but we believe our model is well-balanced, spread across many geographies and varied and significant customer bases. And we are confident that our improvement processes can create substantial value, even in difficult environments.

Going forward then, we remain positive. This corporation has strong positions, robust business models, extraordinary brands, a diverse customer base, and a great team of associates and franchisees. Yes, there are bumps in the road, but we continue to believe that considerable runway remains and Snap-on is well positioned to take full advantage. Now we will turn the call over to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS) We will take our first question from David Leiker from Robert W. Baird.

David Leiker - *Robert W Baird & Co. - Analyst*

Good morning.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Good morning, David.

David Leiker - *Robert W Baird & Co. - Analyst*

Couple of things. I know you guys don't give specific guidance and in your conversations you didn't really -- in the comments at the end there, Marty, you didn't really talk about your outlook for -- the economic outlook for you end-markets and some of those concerns that Nick mentioned and whether you think those -- kind of what your assumptions are for those going forward, here? If you could give us some color in that regard.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

David, this is Nick. I think, I hope that I communicated. I think we see issues, but we believe we can manage them effectively. I think I said on prior calls that we expect our volume growth to be in the mid-single digit range. And it is that, and that's roughly what we have in this quarter and we expect our earnings growth to be 15% plus, quarter by quarter. And we see nothing that should discourage us from that.

David Leiker - *Robert W Baird & Co. - Analyst*

Okay. I understand that, I guess. As we are listening to earnings calls here this week, we are hearing a lot of folks talk about pretty meaningful weakness in the European market, particularly construction end-markets, economic activities clearly slowed here in the the US and it doesn't seem to be getting better. Europe seems to be getting worse, the Asian markets seem to be weakening. So in that context, with what you have done in the first half of the year, it seems like the second half has more challenges than what you've experienced here in Q2.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Dave, look, you are correct that major economies in Europe are showing a slow down. Clearly, we talked about the issues effecting the automotive sector, and really the impact on our customers in terms of their spending habits. The point is, we are pretty diversified globally. We are still seeing growth opportunities in all of these markets.

And, I think as we said in the past, we see a lot of market sectors within these economies that were relatively unpenetrated by us in the past. So there's is a lot of business out there for for us, and that's why were focusing, for example, in natural resources and in aviation, and some of those other sectors in the commercial side, where, as Nick said, in the US alone, notwithstanding the economic climate in the US, sales improved 25%. Now, we are not communicating that we expect continued 25% growth quarter over quarter in the US industrial business.

So, its sometimes misleading to try take a macro picture and somehow try to translate it directly into our micro performance, because we do see pockets of opportunity. And really on a global basis.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Let me add just one -- a little bit of color to that. Regarding Europe, yes, as I said, the European economies are slowing down. But we tend to be strong in Spain, and that's led the slow down. So the second quarter, our business -- first and second quarter, our businesses took one of the biggest hits associated with the slow down. A quarter of our business is in Spain and Europe. And that's -- I don't know if you have been following that, but the construction market in Spain imploded and a lot of the industrial indexes in consumer spending has followed along and we weathered that. So, we are not so -- we see some back-off in Europe, but we're not so negative about that.

The United States, of course, there are the challenges. Fuel prices are probably the biggest thing, but if you look back in history, what you'll find is as fuel prices have increased, still our vans have seemed to weather pretty well. In 1978, the last time the fuel prices moved in this kind of level, van prices -- van sales went up reasonably well each year. So, we are not too daunted by this, we think our models are resistant.

Then, as Marty said, and I think maybe is not always clear, we have not mined the Industrial business as we might have. We like to say, we are finally realizing we could bring the Snap-on brands out of the garage. And that's what you are seeing in terms of this 25% growth. It is not so much capturing more business with existing customers, it is reaching out to new customers. And with that 500-man direct sales force, which is pretty large as direct sales forces go in this sector, we feel pretty confident that that can keep going.

David Leiker - *Robert W Baird & Co. - Analyst*

Ok. Great. Thanks for that. One other item, here, as we look at energy costs. Clearly you were able to offset it for yourself here in terms of Snap-on energy costs, but if you look at the dealer - How big is fuel as part of his cost and is there? Do you see dealers drive fewer miles, making fewer stops? (inaudible) environments like this, just trying to give us some perspective --

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Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Let me not get into specifics, but let's say if the diesel price goes up a dollar, that adds about $0.90 -- that adds about $100 a week to the deal -- just under $100 a week to their gas expenses. And we figured out how to offset that with our RCI. We've got programs to try to do that, and we're continuing to do more of that. One of the things we are doing really is -- is turning the RCI engine focus on the franchisees. And as you might expect, these are small businessmen, they all do things different - somewhat differently in a lot of ways - and there is a lot of opportunity to improve there.

So we feel pretty positive about the value of Rapid Continuous Improvement in some of our innovation processes, bringing down their cost, at least for the foreseeable future and keeping them even. Now, of course, it's a struggle each quarter, we have to work pretty hard at that. But, we feel positive about it.

David Leiker - *Robert W Baird & Co. - Analyst*

Then, this one last thing. Marty, I don't think you gave a specific number, but your sales for US dealers are down 4%. What -- How is your dealer performance to the end-market?

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Yes, David, the reported sales are down 4%. And as we have communicated in past calls - we didn't touch on it in our our formal remarks - if you eliminate some of the factors that don't necessarily give you a good indication of, sort of, float through the stores. And for example, the variation in year over year sales comparisions when we convert franchisees to full franchisee and for the reason Nick cited, were less this year than last year, you actually the 4% down to about a negative 1%. We did get some pricing, which would make the volume there a little lower than 1%. And then, if you sort of disaggregate that further, across our Snap-on product compared to our mid-tier and RWD, you'd find that we had growth in both mid-tier and RWD, but again a decline in the Snap-on branded of products, and particularly the higher-ticket products that Nick mentioned.

David Leiker - *Robert W Baird & Co. - Analyst*

Okay. Perfect. Thank you very much.

Operator

Our next question comes from Jim Lucas, Janney Montgomery Scott.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Thanks, good morning, guys. Couple of questions, here. First, pricing overall in the quarter, what was that?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Jim, pricing in the quarter was about -- I would say 1.3 -- about a percent -- $9 million roughly.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Ok. And when you look at these unpenetrated markets, you know, taking the Snap-on brand beyond the car garage, they, if I remember correctly, non-automotive markets represent 30 percent --?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

28%. 29%. It's in flux, but you're about right.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Is there a way that you can provide a little bit more granularity of that 28%? What the end-market exposure is in terms of, whether it is aviation, energy, etc.?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

We could think about doing that on a future call. I think I can tell thank you that, I can granularize the growth rates. The aerospace business grew about 29% in the quarter. Natural resources grew 26%. That kind of thing. So there -- some of those businesses were lower. Education grew -- the vocational training business grew between 5% and 10%, so somewhat lower. So there's some of the balance you see in some of those specific markets. The base markets grew at about 11%.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

You know, we can try to give you a little more granularity in terms of the absolute amount.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Jim, let me -- I'll add a little more color. You know our business. You know SNA Europe sells predominantly outside automotive, that's increasingly a global business with respect to a number of their important products, including hack saws and band saws, because that's increasingly being penetrated in Asia. Nick talked about some of the focused markets, which are really serviced by our US Industrial business. And that business today, the size it is approaching 20% of the segment. So we've got very high growth in opportunity in that portion of the C&I segment. A lot of our Asian businesses, as you know, is -- there's automotive end-market in that, but there's quite a bit of non-automotive as well. I mean, our automotive concentration, as you know, is predominantly the entire D&I segment, as well as the Snap-on tools. Plus you have equipments -- and then the under-car equipment business which is roughly a quarter of the C&I segment.

I think one of the things you can think of, Jim, is that -- I think we've said this on prior calls -- if it's helpful, is that the Snap-on US van business now is between 25% and 30% of our overall business. So we're substantially less dependant on that particular business than we have been in the past. I think that's one of the overall messages we have here.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay. And Nick, you had made a comment about the hack saw manufacturing transaction from Sweden to China. And in your comment, you had referenced a tough transition. Was just wondering if you could expand a little bit.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

When I said tough, I don't want to imply that we had, necessarily, problems. But, I think, through bitter tears I have learned the difficulty of projecting a state-of-the-art technology thousands of miles. And so I think we approached it with the idea it was going to be daunting. The technology we are using in China, in fact, is an evolution of what had been used in Sweden. So we fundamentally used the Sweden operation as a base, developed the new technology there in terms of machining these hack saw blades, ordered the products, and started them up in China without having a base -- an exact copy base operations in Sweden.

So what we have in China today, is a hack saw blade that is manufactured in a more efficient process, and is manufactured to higher standards than the particular model that had been manufactured in Sweden at that time. So, that's what I meant by the tough transition. We really didn't have any major disruptions, or anything like that. It was, in fact, completed on time, on cost. And we are pretty much at sellout right now, so we are looking at expanding. Probably a bad choice of words. This is my --

Jim Lucas - *Janney Montgomery Scott - Analyst*

-- Semantics. Just let's you know people are actually listening here.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Yes, right. Makes me feel better.

Jim Lucas - *Janney Montgomery Scott - Analyst*

You know, finally, if we look here in the remarks, it's clear the diversification of the portfolio is paying very big dividends in these times. When we look at the margin performance, particularly in C&I and D&I in the quarter, we're getting into unchartered territories from what we've seen from Snap-on, historically. And with C&I in particular, can you talk a little about where that business can go longer term?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Well, I think we believe it will be in the strong mid-teens. That's where we believe it will be. I think it will end between -- I don't know about end, but be between 15% and 20% over time. I think we're discovering things about C&I that we didn't quite realize. When I ran C&I, I don't think I fully envisioned the runway that's in the Industrial business. We believe this to be a tremendous opportunity.

And it dawns on us, like I tried to communicate in my call, is that we are uniquely positioned with the technical knowledge embedded in that sales forces, and we have a product that critical buyers value and want. In the past, we thought of ourselves as being in the garage. That's one. Two - we understand we have a technical advantage in equipment, in our imaging technology. We're one pushing that advantages, and the people down there are quite technically enabled, and we are pushing the technical advantage at the same time the costs are being driven down - the costs of the new model are terrific, and yet, the benefits to the customer are better than any competition. We feel pretty good about that.

And SNA Europe is a story of just continual improvement, because they had a good business in Bahco and EuroTools, so we put them together, and there is constant potential for improvement and they're contiguous to the eastern European markets. When you put all that together, I see them going to 15% to 20% - in between there someplace.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Ok. And D&I in terms of -- it would seem that ProQuest is having a very pronounced impact in terms of the overall increased profitability of that segment, and when we look at the margin potential of that business, especially once these OEM contracts lapse and we've got some top-line to leverage, what can that business look like?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Well, I think we feel pretty positive about our positions. We really have two positions in D&I. One, is with independent car repair people. The Mitchell and the Diagnostics business are fairly strong and our data content is stronger than anybody else in the industry. No one can get better data on a wide range of products than we can provide. So we have a great position there.

And ProQuest gave us a burgeoning position -- greatly expanded our position with OEM dealerships -- and just a minute about ProQuest. ProQuest is fulfilling all our targets when we made the acquisition. It's base business, the electronic-parts catalog business is on target, it's synergies, which I think we had for $4 or $5 million this year, are happening. So we see that business being, I guess I wouldn't want to comment on the total number, but I see it being somewhat stronger than the other businesses, because I think we have some pretty proprietary advantages in that area.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Jim, it's Marty. Let me just add, because we've talked in the past about margin expectations for the company as a whole. And, years ago, we talked about a 13% number for 2010; we said earlier we were ahead of that, and we were charging to 15% by 2010. And the mix of that would have put, as you know, Diagnostics and Information at the highest, high teens or so, then Tools and the Commercial Industrial and I think the one thing we're seeing is improving Commercial Industrial margin expansion beyond what, maybe we would have thought just a short while ago. And I think if you put that mix together, you can easily see how we can get sort of a 15% overall, corporate margin.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay. Thank you very much for the color.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Thanks.

Operator

(OPERATOR INSTRUCTIONS) Our next question comes from Alexander Paris, Barrington Research Associates.

Alexander Paris - *Barrington Research - Analyst*

Thank you. Good quarter.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Thanks Alex.

Alexander Paris - *Barrington Research - Analyst*

Could I just ask some questions about the -- your restructuring costs? You had mentioned $5 million, I think it was, you discussed that in the C&I segment -- Is that were most of it was?

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Yes. Most of it -- last year we had some major restructuring, some very large formal restructuring in Europe. We closed our Enkoping plant and moved it into Spain, and moved some production into Spain and others into eastern Europe and China. So that was driving a big piece of that.

Alexander Paris - *Barrington Research - Analyst*

And that $13 to $16 million for 2008? Most of that is in the C&I?

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Some of it is, Alex. It's spread across the segments, but C&I would still have the majority of it.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

I want to point out that the reductions doesn't necessarily mean we're not doing improvement activities. We're constantly spending money on improvement activities that don't meet the formal description of classification around restructuring. So, I think if anything, what you have seen this year is a little bit of a migration from the big-bang items, like Johnson City and Enkoping closing which happened last year, to more individual items that just don't meet the classification of restructuring and are being spent in the operations and absorbed and not called out as restructuring. And re are seeing that benefit in terms of the performance improvements year-over-year.

Alexander Paris - *Barrington Research - Analyst*

So in 2009, would you expect that to be lower or higher? I am getting at that as a measure of your discovery of additional opportunities for improving efficiency. Is that running down a little bit, that is, you're getting to the point where you found a lot of the big improvement potential?

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Alex, first of all, we don't have a clear view on 2009, but I think, as Nick said, at some point the major actions in terms of the major plant consolidations are fairly well behind us. And I don't think anybody would have expected us to spend the $20 or $25 million a year indefinitely, that had that been our history. So, I think you are now starting to see the decline reflecting, just what Nick said, which is, as he said, a lot of the big-bangs are behind us. We continue to look for improvements every day and some of those will result in restructurings, but I don't think any of us thought we would spend $20 to $25 million a year. There are just not that many plants to consolidate and other physical improvements to be made, where a lot of these charges result.

Alexander Paris - *Barrington Research - Analyst*

But it sounds like you are switching emphasis of that, going forward, to the Snap-on Tool part of the business.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

We are switching it there and everywhere. I don't want anybody to think -- I mean, we're doing more RCI every day and I think that's coming through clearly in the numbers, particularly this quarter. So don't read the trend in restructuring spending as any indication as to the level of RCI activity, because that would not be correct.

Alexander Paris - *Barrington Research - Analyst*

That has been an important part of your up-side operating leverage as you've been showing, particularly when the sales growth was a little slower.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

That's true, but if you look at the -- if you look at Commercial Industrial, for example, if you adjust for currency and lower restructuring, they still grew at 30% year over year, so that's still pretty good performance leverage, I think. Without that adjustment --

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

I'd just like to add a little color to that. I think it would be wrong to think that we're switching our emphasis to the Tools Group in any way. Simply this - When you close a major plant in Europe, it is big bucks and so when you don't do that, it tends to reduce your numbers somewhat. I would think that I would see us spending $10 to $15 million for awhile because we do see continual opportunities going forward. It is just that we also are seeing the small opportunities as well. And one of the things that happens with these Rapid Continuous Improvements that I've found here, is that when you first start it you see -- you kind of tend to focus on the big opportunities. But as it tends to wind its way through the organization, those kernels of improvement that are down in various departments and locations find opportunities to improve. And that's what we are seeing, some of that, this year. So, even with lowering restructuring spending, we're seeing substantial performance improvement.

Alexander Paris - *Barrington Research - Analyst*

Those are a lot of questions on Europe and you did the major restructuring in 2007. Do you still see, currently and going forward, more benefits -- leveraging benefits still to be seen from the major restructuring that you already had.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Yes, sir. We haven't seen it all, I can assure you.

Alexander Paris - *Barrington Research - Analyst*

And you talked about being hit in Spain, and Italy is pretty weak, too.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Italy is weak, but we are not that -- Well, Italy is a big country, but not so strong for us. Spain is a strong country for us. So, the fact that Spain was on the leading edge of some weakness in the economics, gave us a problem. And we overcame it.

Alexander Paris - *Barrington Research - Analyst*

Just one other question in the Tool business, Snap-on Tools, Van business - it sounds like your weakness more is due to capital spending decisions and tool storage and diagnostics, but I would expect that your hand tool business would have held up better. Particularly you have higher on time delivery, which probably should have added to sales and you had that RWD that should be still be adding to sales growth. Is there something I am missing there?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

No, our hand and power tool business, which is the productivity improvement business, held up pretty well. We just took a pretty big ding in the tool storage and the big ticket items. To me, it is pretty logical, Alex. What happens is that the guys decide "Well, it is tougher times, it is uncertain times. Maybe I will get along without that tool box." The fact that they go to the movies and see that Tony Stark and Bruce Wayne use our tools doesn't necessarily move them into buying a tool box. But they do buy our wrenches and they do buy our power tools, particularly the power tools. The power tools had a dynamite quarter. So, what you are seeing coming out of that same-store sales is just the balance of that mix.

Alexander Paris - *Barrington Research - Analyst*

So that would imply then that the tech-reps would maybe sell even more expensive equipment directly to the dealers and that should have been very weak then.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Yes, that was some weaker. Yes. To the extent -- Now, we do have some less expensive diagnostics which go through that channel and they sold pretty well.

Alexander Paris - *Barrington Research - Analyst*

Okay. All right. Thank you very much.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Okay. Thanks, Alex.

Operator

We will take a follow up question from David Leiker with Robert W Baird.

David Leiker - *Robert W Baird & Co. - Analyst*

I just want to follow up on what Alex was talking about. In your Commercial business, how is the equipment sales going for the auto repair market?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Yes. Equipment sales are up slightly, but not like we would like it. The thing is, it is being hurt by the capital expenditures restriction. So, in the quarter it was up very slightly.

David Leiker - *Robert W Baird & Co. - Analyst*

You would expect that to slow down though, with this capital spending or not?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

You know, I don't think so. I have confidence in our technology. We think we can instigate replacement because our technology is better. I think it was up - I think excluding currency - equipment was up 2% or 3%. That's what I mean by slightly.

David Leiker - *Robert W Baird & Co. - Analyst*

So, the OEM facilitation business -- where does that stand right now in terms of size? And is there more there to run off? I know you made the comment that the impact is going to be more moderate?

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

David, you know, for the first half of this year we sort of had a negative comparison of $19 million, mostly because of one major program in the US and the program in Europe. As I said in my prepared remarks, we expect the comparison to be substantially more favorable, and I'll interpret that to mean, sort of, a flattish comparison with respect to OEMs programs.

David Leiker - *Robert W Baird & Co. - Analyst*

What is the size of this business now?

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

The size of this business now, again, if you sort of look at their core business - the ongoing business, exclude the programs - this is a business that will run $30 to $35 million a quarter. That is without the program business. You know, I can look over this year and last year and tell you that you can have quarters in the program business in the $5 million range and, believe it or not, you can have program quarters of $25 million. At least in terms of the last couple of years, that's the kind of variation extremes you can see.

David Leiker - *Robert W Baird & Co. - Analyst*

Okay. And then --

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Actually, I want to add, with regard to that business, the facilitation business, I think you understand this, Alex, is kind of the base. The programs -- We see a couple of programs coming on that we feel pretty optimistic about in that area. So, it is not like we think that business is a bad business or we're thinking about pulling back on that, just because the two programs have wound down. We just didn't do the best job of getting programs in the pipeline to makeup for those two or three contract that are causing us some disruption.

David Leiker - *Robert W Baird & Co. - Analyst*

Are there any changes in the competitive landscape that you're seeing these days?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

You mean, in that particular business?

David Leiker - *Robert W Baird & Co. - Analyst*

No, no, just overall. Anything in particular across your business.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

I think, though, that we are seeing, with regard to the equipment business, we are seeing the winning of our technology. We are starting to see a substantial improvement in the wheel service area, in terms of alignment, and in terms of balancers and tire changers. We believe we are gaining substantial share in that area. That's one. Two, I think you'd have to conclude that we are gaining share, however you contrive share, in the industrial segment. It's kind of hard to do that because it is such a large segment. So we are pushing people out in that segment and we're winning against some of our major competitors there. So those two businesses, I think, we're seeing a pretty good improvement in our position.

David Leiker - *Robert W Baird & Co. - Analyst*

Do you think in the dealer hand tool business, shares are going up or down?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

You know, I think -- Our data says that our share is flat, in the quarter. But I think we have learned to keep our powder dry about that and to take a look at it on an annual basis as opposed to a quarterly basis, because of the imprecision of the reporting.

David Leiker - *Robert W Baird & Co. - Analyst*

Yes. I understand. Two last things. Where are you in your roll out and penetration of the RWD and the mid-tier product line ups? How long does that continue to be a positive for you?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Well, I think, for some time. I don't know. I think for the foreseeable future because we keep adding to that line up. As we talked to our franchisees, and we are bringing the franchisee group together in Las Vegas, again, this year, I think we'll have two-thirds of the US franchisees in Las Vegas with us. And we get ideas from them about adding line up to the RWD product line. I am not sure we are going to see that abate for awhile. It may reduce in terms of number or amount of increase, but I am not sure we are going to see the growth abate. Or go away.

David Leiker - *Robert W Baird & Co. - Analyst*

What about in the mid-tier products?

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

Mid-tier was up about a percent, maybe a half percent. I would say, maybe, another three quarters of improvement in that area -- I mean three fiscal quarters of expansion and we will be finished.

David Leiker - *Robert W Baird & Co. - Analyst*

One last thing, here. Marty, can you just talk a little bit about the credit environment, what you're customers are seeing, and things along those lines?

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Sure. I assume you are referring to the Snap-on credit business. And the portfolio there actually is performing still very well. We watch delinquencies closely. And if you go over the last year, actually, of our 30-plus delinquencies have -- are actually only up about 3 basis points for September. They were actually higher in December and they have actually come down since December, both in terms of 30-plus delinquent accounts and 60-plus delinquent accounts. So the portfolio still performs very, very well.

I think, David, as an outsider who came to this business, that portion of the business, only 18 months ago, I am pretty pleased with what I see. Our sound bite is - we have been in this kind of business for a long time and so we have been able to manage what ordinary people would say might be, not necessarily, the best credit risks and we've managed it well, and our businesses have actually improved in quarter to quarter, in terms of delinquencies when the rest of the world has gotten worse.

David Leiker - *Robert W Baird & Co. - Analyst*

And you are not really putting loans out there that are worth more than the product you're selling either.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

No. No, I don't think so.

Nick Pinchuk - *Snap-on Inc. - CEO, President, Director and President of Worldwide Commercial and Industrial Group*

But we have a terrific touch with the customer.

David Leiker - *Robert W Baird & Co. - Analyst*

No. I am aware. I just wanted to get an update on that. Thank you.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Right.

Operator

At this time we have no further questions. I would like to turn the conference over to Mr. Ellen for any additional or closing remarks.

Marty Ellen - *Snap-on Inc. - CFO and SVP of Finance*

Thank you, Stephanie, and thank you, everyone, for joining us this morning. We thank you for your interest in Snap-on. Good day.

Operator

This does conclude today's call -- teleconference. We appreciate your participation. You may now disconnect.