

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended June 30, 2001

Commission File Number 1-7724

SNAP-ON INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware 39-0622040
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

10801 Corporate Drive, Pleasant Prairie, Wisconsin 53158-1603
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (262) 656-5200

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

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

Class	Outstanding at July 28, 2001
-----	-----
Common stock, \$1 par value	57,997,385 shares

SNAP-ON INCORPORATED

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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

SNAP-ON INCORPORATED
CONSOLIDATED STATEMENTS OF EARNINGS
(Amounts in millions except per share data)
(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
Net sales	\$ 525.6	\$ 563.2	\$1,053.0	\$1,107.5
Cost of goods sold	(286.3)	(298.4)	(570.0)	(593.8)
Operating expenses	(205.9)	(193.5)	(408.4)	(388.8)
Net finance income	7.9	10.5	20.0	22.2
Restructuring and other non-recurring charges	(14.4)	-	(14.4)	(.4)
Interest expense	(9.2)	(10.6)	(18.1)	(20.9)
Other income (expense) - net	(1.6)	.8	.3	1.9
Earnings from continuing operations before income taxes	16.1	72.0	62.4	127.7
Income taxes on earnings from continuing operations	7.2	26.3	24.1	46.7
Earnings before cumulative effect of a change in accounting principle	8.9	45.7	38.3	81.0
Cumulative effect of a change in accounting principle for derivatives in 2001 (net of tax of \$1.6 million), and for pensions in 2000 (net of tax of \$15.9 million)	-	-	(2.5)	25.4
Net earnings	\$ 8.9	\$ 45.7	\$ 35.8	\$ 106.4
Net earnings per share - basic and diluted:				
Earnings before cumulative effect of a change in accounting principle	\$.15	\$.78	\$.66	\$ 1.38
Cumulative effect of a change in accounting principle, net of tax	-	-	(.05)	.43
Net earnings per share	\$.15	\$.78	\$.61	\$ 1.81
Weighted-average shares outstanding:				
Basic	57.9	58.6	57.8	58.6
Effect of dilutive options	.3	.2	.3	.2
Diluted	58.2	58.8	58.1	58.8
Dividends declared per common share	\$.48	\$.47	\$.72	\$.70

See Notes to Consolidated Financial Statements.

SNAP-ON INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Amounts in millions except share data)

	June 30, 2001	December 30, 2000
	(Unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 6.5	\$ 6.1
Accounts receivable - net of allowances	621.5	644.5
Inventories		
Finished stock	402.8	386.0
Work in process	46.1	45.1
Raw materials	84.9	79.7
Excess of current cost over LIFO cost	(93.6)	(91.9)

Total inventory	440.2	418.9
Prepaid expenses and other assets	129.2	116.9
Total current assets	1,197.4	1,186.4
Property and equipment		
Land	23.2	24.3
Buildings and improvements	198.1	204.8
Machinery and equipment	485.1	477.2
	706.4	706.3
Accumulated depreciation	(381.0)	(361.2)
Property and equipment - net	325.4	345.1
Deferred income tax benefits	36.2	33.0
Intangibles - net	393.0	424.6
Other assets	64.6	61.3
Total assets	\$2,016.6	\$2,050.4
	=====	=====

See Notes to Consolidated Financial Statements.

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SNAP-ON INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Amounts in millions except share data)

	June 30, 2001	December 30, 2000
	----- (Unaudited)	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 154.7	\$ 161.0
Notes payable and current maturities of long-term debt	38.0	70.3
Accrued compensation	53.3	56.3
Dealer deposits	41.1	39.8
Deferred subscription revenue	48.3	44.9
Other accrued liabilities	164.3	165.7
Total current liabilities	499.7	538.0
Long-term debt	508.5	473.0
Deferred income taxes	22.4	24.7
Retiree health care benefits	94.1	92.2
Pension liability	32.6	41.4
Other long-term liabilities	33.6	37.1
Total liabilities	1,190.9	1,206.4
	-----	-----
SHAREHOLDERS' EQUITY		
Preferred stock - authorized 15,000,000 shares of \$1 par value; none outstanding	-	-
Common stock - authorized 250,000,000 shares of \$1 par value; issued 66,817,950 and 66,789,090 shares	66.8	66.8
Additional paid-in capital	51.8	71.6
Retained earnings	1,059.3	1,051.3
Accumulated other comprehensive income (loss)	(120.3)	(87.2)
Grantor stock trust at fair market value - 6,133,144 and 6,443,033 shares	(148.2)	(179.6)
Treasury stock at cost - 2,688,435 and 2,523,435 shares	(83.7)	(78.9)
Total shareholders' equity	825.7	844.0
	-----	-----
Total liabilities and shareholders' equity	\$2,016.6	\$2,050.4
	=====	=====

See Notes to Consolidated Financial Statements.

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SNAP-ON INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in millions)
(Unaudited)

	Twenty-six Weeks Ended	
	June 30, 2001	July 1, 2000
OPERATING ACTIVITIES		
Net earnings	\$ 35.8	\$ 106.4
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Cumulative effect of a change in accounting principle (net of tax) for derivatives in 2001 and for pensions in 2000	2.5	(25.4)
Depreciation	25.8	26.9
Amortization of intangibles	8.8	9.0
Deferred income tax provision	3.5	2.9
Gain on sale of assets	(.3)	(1.6)
Mark-to-market on cash flow hedges, net of tax	(.8)	-
Restructuring and other non-recurring charges, net of tax	9.0	.2
Changes in operating assets and liabilities, net of effects of acquisitions:		
(Increase) decrease in receivables	11.2	(27.3)
(Increase) decrease in inventories	(38.0)	(25.0)
(Increase) decrease in prepaid and other assets	(19.0)	(11.8)
Increase (decrease) in accounts payable	3.1	10.5
Increase (decrease) in accruals and other liabilities	(15.3)	(9.1)
Net cash provided by operating activities	26.3	55.7
INVESTING ACTIVITIES		
Capital expenditures	(23.6)	(25.9)
Acquisitions of businesses - net of cash acquired	(.9)	(6.1)
Disposal of property and equipment	4.5	4.6
Net cash used in investing activities	(20.0)	(27.4)
FINANCING ACTIVITIES		
Payment of long-term debt	(3.8)	(1.0)
Increase in long-term debt	.7	7.1
Increase (decrease) in short-term borrowings - net	18.5	(21.9)
Purchase of treasury stock	(4.9)	-
Proceeds from stock purchase and option plans	11.7	5.1
Cash dividends paid	(27.7)	(26.9)
Net cash used in financing activities	(5.5)	(37.6)
Effect of exchange rate changes on cash	(.4)	(.2)
Increase (decrease) in cash and cash equivalents	.4	(9.5)
Cash and cash equivalents at beginning of period	6.1	17.6
Cash and cash equivalents at end of period	\$ 6.5	\$ 8.1
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 19.3	\$ 21.0
Cash paid for income taxes	\$ 11.6	\$ 20.5

See Notes to Consolidated Financial Statements.

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SNAP-ON INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. This report should be read in conjunction with the consolidated financial statements and related notes included in Snap-on Incorporated's ("Snap-on") Annual Report on Form 10-K for the year ended December 30, 2000.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments and adjustments related to restructuring and other non-recurring charges) necessary to a fair statement of financial condition and results of operations for the thirteen and twenty-six weeks ended June 30, 2001, have been made. Management also believes that the results of operations for the thirteen and twenty-six weeks ended June 30, 2001, are not necessarily indicative of the results to be expected for the full year.

During the fourth quarter of 2000, Snap-on recorded a pre-tax gain of \$41.3 million (\$25.4 million after tax) for the cumulative effect of a change in accounting principle for pensions that was retroactive to the first quarter of 2000. Previously reported second quarter and year-to-date 2000 results have been restated for a reduction in periodic pension expense of \$2.4 million (\$1.5 million after tax) and \$4.8 million (\$3.0 million after tax), respectively, as a result of this change in accounting for pensions. The year-to-date 2000 results also reflect the cumulative effect gain of \$25.4 million. Certain other prior-year amounts have been reclassified to conform with the current-year presentation.

2. In the second quarter of 2001, Snap-on announced that it is taking significant action to (i) reduce costs companywide to adjust to the slower sales environment and (ii) improve operational performance in businesses not earning acceptable financial returns. As a result of selective rationalization and consolidation actions, Snap-on expects to reduce its global workforce of 14,000 by approximately 4%. In implementing these actions, Snap-on anticipates that it will incur restructuring, non-recurring and other non-comparable, pre-tax charges that will total \$65 million to \$75 million in 2001, including second-quarter charges of \$20.5 million. Approximately 50% of the total second quarter of 2001 charges were non-cash, with the remaining costs requiring cash outflows provided from operations.

In the second quarter of 2001, Snap-on recorded restructuring and other non-recurring charges totaling \$14.4 million (\$9.0 million after tax), primarily for various exit-related costs, asset impairment write-downs and management transition costs. This charge includes a \$6.0 million restructuring reserve and \$8.4 million in non-recurring charges. The restructuring charge relates to the closure of nine facilities, comprised of four manufacturing facilities and five sales/administration offices, and includes \$1.1 million for severance associated with the elimination of 98 positions, \$4.7 million for non-cancelable lease agreements and related facility asset write-downs, and \$0.2 million for other exit costs. Severance costs provided for worldwide salaried and hourly employees relate to facility closures, consolidation and streamlining initiatives. During the second quarter of 2001, Snap-on incurred expenditures of \$2.0 million against the \$6.0 million restructuring reserve for facility asset write-downs and for severance costs. At the end of the second quarter of 2001, severance costs for 11 of the 98 positions have been incurred. The remaining restructuring reserve of \$4.0 million at June 30,

SNAP-ON INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

2001 is expected to be fully utilized by the end of 2001. The second quarter of 2001 non-recurring charges of \$8.4 million represent management transition costs associated with the April 2001 retirement of Snap-on's president and chief executive officer and the appointment of Dale F. Elliott, Snap-on's President - diagnostics and industrial, as successor to this position.

As part of the total second quarter charges, Snap-on recorded non-comparable costs of \$6.1 million (including \$1.5 million reported in cost of goods sold and \$4.6 million reported in operating expenses), primarily related to the termination of a European equipment supplier

arrangement.

3. Snap-on normally declares and pays in cash four regular, quarterly dividends. However, the third quarter dividend in each year is declared in June, giving rise to two regular quarterly dividends appearing in the second quarter and, correspondingly, three regular quarterly dividends appearing in the first twenty-six weeks' statements.
4. Snap-on accounts for its hedging activities under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138. These standards require that all derivative instruments be reported in the consolidated financial statements at fair value. Changes in the fair value of derivatives are to be recorded each period in earnings or other comprehensive income (loss), depending on the type of hedged transaction and whether the derivative is designated and effective as part of a hedged transaction. Gains or losses on derivative instruments reported in other comprehensive income (loss) must be reclassified as earnings in the period in which earnings are affected by the underlying hedged item, and the ineffective portion of all hedges must be recognized in earnings in the current period.

In accordance with the provisions of SFAS No. 133, Snap-on recorded a transition adjustment on December 31, 2000, the beginning of Snap-on's 2001 fiscal year, to recognize its derivative instruments at fair value, and to recognize the difference between the carrying values and fair values of related hedged assets and liabilities upon adoption of these standards. The effect of this transition adjustment was to decrease reported net income in the first quarter of 2001 by \$2.5 million related to a hedge strategy that did not qualify for hedge accounting under SFAS No. 133. Snap-on also recorded in the first quarter of 2001 a transition adjustment of \$1.2 million, after tax, in accumulated other comprehensive income (loss) to recognize previously deferred net gains on derivatives designated as cash flow hedges that qualify for hedge accounting under SFAS No. 133.

Snap-on uses derivative instruments to manage well-defined interest rate and foreign currency exposures. Snap-on does not use derivative instruments for trading purposes. The criteria used to determine if hedge accounting treatment is appropriate are (i) the designation of the hedge to an underlying exposure, (ii) whether or not overall risk is being reduced, and (iii) if there is a correlation between the value of the derivative instrument and the underlying obligation. Upon adoption of the new derivative accounting requirements, on the date a derivative contract is entered into, Snap-on designates the derivative as either a fair value hedge, a cash flow hedge, a hedge of a net investment in a foreign operation, or a natural hedging instrument whose change in fair value is recognized as an economic hedge against changes in the values of the hedged item.

SNAP-ON INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Foreign Currency Derivative Instruments: Snap-on has operations in a number of countries and has intercompany transactions among them and, as a result, is exposed to changes in foreign currency exchange rates. Snap-on manages most of these exposures on a consolidated basis, which allows for netting of certain exposures to take advantage of natural offsets. To the extent the net exposures are hedged, forward exchange contracts are used. Gains and/or losses on these foreign currency hedges are intended to offset losses and/or gains on the hedged transaction in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. At June 30, 2001, Snap-on had net outstanding foreign exchange forward contracts totaling \$154.1 million comprised of \$65.2 million in euros, \$52.0 million in British pounds, \$26.1 million in Canadian dollars, \$5.0 million in Swedish krona and \$5.8 million in other currencies.

Snap-on's forward exchange contracts are accounted for as cash flow hedges where the effective portion of the changes in fair value of the derivative is recorded in other comprehensive income (loss). When the hedged item is realized in income, the gain or loss included in accumulated other comprehensive income (loss) is reclassified to income in the same financial statement caption as the hedged item. In addition, both the fair value

changes excluded from Snap-on's effectiveness assessments and the ineffective portion of the changes in the fair value of derivatives used as cash flow hedges are reported in earnings as foreign exchange gain or loss, which is included in other income (expense) when applicable. Forward points on forward exchange contracts are recognized as interest expense.

Non-Derivative Instruments Designated in Hedging Relationships: Snap-on uses non-U.S. dollar financing transactions as net investment hedges of long-term investments in the corresponding foreign currency. Hedges that meet the effectiveness requirements are accounted for under net investment hedging rules. The effective portion of the fair value of derivatives used as a net investment hedge of a foreign operation is recorded in accumulated other comprehensive income (loss) as a cumulative translation adjustment. The ineffective portion of the change in the fair value of a derivative or non-derivative instrument designated as a net investment hedge is recorded in earnings as foreign exchange gain or loss, which is included in other income (expense) when applicable. At June 30, 2001, net gains of \$9.7 million arising from effective hedges of net investments have been reflected in the cumulative translation adjustment account as a component of accumulated other comprehensive income (loss).

Interest Rate Swap Agreements: Snap-on enters into interest rate swap agreements to manage interest costs and risks associated with changing interest rates, specifically the future issuance of commercial paper. Snap-on has interest rate swap agreements in place that effectively exchange floating rate payments for fixed rate payments. Interest rate swap agreements are accounted for as cash flow hedges. The differentials paid or received on interest rate swap agreements are accrued and recognized as adjustments to interest expense. The effective portion of the change in fair value of the derivative is recorded in other comprehensive income (loss), while any ineffective portion is recorded as an adjustment to interest expense. The notional amount of interest rate swaps was \$25.0 million at June 30, 2001.

SNAP-ON INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For all derivatives qualifying for hedge accounting under SFAS No. 133, the net accumulated derivative loss at June 30, 2001, was \$0.8 million, after tax, and is reflected in accumulated other comprehensive income (loss) on the balance sheet. At June 30, 2001, the maximum maturity date of any cash flow hedge is approximately four years. During the next twelve months, Snap-on expects to reclassify into earnings net losses from accumulated other comprehensive income (loss) of approximately \$0.4 million, after tax, at the time the underlying hedged transactions are realized.

During the second quarter ended June 30, 2001, cash flow hedge ineffectiveness was not material. However, there were pre-tax derivative losses of \$0.3 million in the second quarter of 2001 excluded from the assessment of effectiveness recorded in interest expense.

5. Basic and diluted earnings per share were computed by dividing net earnings by the corresponding weighted-average common shares outstanding for the period. The dilutive effect of the potential exercise of outstanding options to purchase shares of common stock is calculated using the treasury stock method.
6. In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for under the purchase method. SFAS No. 142 addresses the recognition and amortization of intangible assets acquired in a business combination, as well as the recognition of goodwill and subsequent assessment of impairment. Snap-on is currently evaluating the impact of adopting these pronouncements.
7. Total comprehensive income for the thirteen and twenty-six week periods ended June 30, 2001, and July 1, 2000, was as follows:

Thirteen Weeks Ended	Twenty-six Weeks Ended
-----	-----

(Amounts in millions)	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
	-----	-----	-----	-----
Net earnings	\$ 8.9	\$ 45.7	\$ 35.8	\$106.4
Foreign currency translation	(11.5)	(2.6)	(32.3)	(5.5)
Change in fair value of derivative instruments, net of tax	.2	-	(.8)	-
	-----	-----	-----	-----
Total comprehensive income	\$ (2.4)	\$ 43.1	\$ 2.7	\$100.9
	=====	=====	=====	=====

8. In April 1996, Snap-on filed a complaint against SPX Corporation ("SPX") alleging infringement of Snap-on's patents and asserting claims relating to SPX's hiring of the former president of Sun Electric, a subsidiary of Snap-on. SPX filed a counterclaim, alleging infringement of certain SPX patents. Upon Snap-on's request for re-examination, the U.S. Patent and Trademark Office initially rejected SPX's patents as invalid, but reconfirmed them. Following the conclusion of discovery, the parties will engage in a binding arbitration scheduled for the fall of 2001. The parties' claims could involve multiple millions of dollars; however, it is not possible at this time to assess the outcome of any of the claims.

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SNAP-ON INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Snap-on is involved in various legal matters that are being defended and handled in the ordinary course of business and Snap-on maintains accruals for such costs. Although it is not possible to predict the outcome of these matters, management believes that the results will not have a material impact on Snap-on's financial statements.

9. Snap-on has two reportable segments: the Snap-on Dealer Group and the Commercial and Industrial Group. These segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. The Snap-on Dealer Group consists of Snap-on's business operations serving the worldwide franchised dealer van channel. The Commercial and Industrial Group consists of the business operations serving the worldwide non-dealer tool and equipment products businesses. These two segments derive revenues primarily from the sale of tools and equipment.

Snap-on evaluates the performance of its operating segments based on segment net sales and operating earnings. Snap-on defines operating earnings for segment reporting purposes as Net Sales, less Cost of Goods Sold and Operating Expenses, excluding restructuring and non-recurring charges. Snap-on accounts for intersegment sales and transfers based primarily on standard costs established between the segments. Snap-on allocates shared service expenses to those segments that utilize the services based on their percentage of revenues from external sources.

Financial data by segment:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
(Amounts in millions)	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
	-----	-----	-----	-----
Net sales from external customers:				
Snap-on Dealer Group	\$ 261.3	\$ 281.0	\$ 517.7	\$ 545.3
Commercial and Industrial Group	264.3	282.2	535.3	562.2
	-----	-----	-----	-----
Total net sales	\$ 525.6	\$ 563.2	\$1,053.0	\$1,107.5
	=====	=====	=====	=====
Intersegment sales:				
Snap-on Dealer Group	\$ -	\$ -	\$ -	\$ -
Commercial and Industrial Group	99.7	97.2	192.6	187.9
	-----	-----	-----	-----
Total intersegment sales	99.7	97.2	192.6	187.9
Elimination of intersegment sales	(99.7)	(97.2)	(192.6)	(187.9)

Total consolidated intersegment sales	----- \$ - =====	----- \$ - =====	----- \$ - =====	----- \$ - =====
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SNAP-ON INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in millions)	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
Earnings:				
Snap-on Dealer Group	\$ 25.9	\$ 43.9	\$ 53.8	\$ 77.8
Commercial and Industrial Group	7.5	27.4	20.8	47.1
Segment operating earnings	33.4	71.3	74.6	124.9
Net finance income	7.9	10.5	20.0	22.2
Restructuring and other non-recurring charges	(14.4)	-	(14.4)	(.4)
Interest expense	(9.2)	(10.6)	(18.1)	(20.9)
Other income (expense) - net	(1.6)	.8	.3	1.9
Total pre-tax earnings from continuing operations	\$ 16.1	\$ 72.0	\$ 62.4	\$ 127.7

	As of	
	June 30, 2001	December 30, 2000
Assets:		
Snap-on Dealer Group	\$ 835.9	\$ 796.0
Commercial and Industrial Group	1,134.2	1,210.8
Total from reportable segments	1,970.1	2,006.8
Financial Services	99.6	96.2
Elimination of intersegment receivables	(53.1)	(52.6)
Total assets	\$2,016.6	\$2,050.4

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SNAP-ON INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Consolidated

Net sales in the second quarter of 2001 were \$525.6 million, down 6.7% versus the comparable period in 2000. For the first six months of 2001, net sales were \$1,053.0 million, down 4.9% as compared to \$1,107.5 million in the first six months of 2000. The year-over-year decrease in net sales for both the second quarter and first six months of 2001 reflects lower organic sales of equipment and large diagnostics products for the vehicle-repair market in Europe and North America as a result of soft market conditions, as well as the impact of unfavorable currency translations. Excluding the negative 3% impact from

currency translation for both the second quarter and first six months of 2001, organic sales growth was down 4% for the second quarter of 2001, and down 2% year to date. The decline in sales for both the three- and six-month periods was partially offset by modest increases in U.S. sales of tools and tool storage products in both the industrial and dealer business units. Snap-on Incorporated ("Snap-on") defines organic sales growth as the change in year-over-year base sales volumes, excluding the impact of acquisitions, divestitures and currency translation.

Net earnings for the second quarter of 2001 were \$8.9 million, or \$.15 per diluted share, as compared with \$45.7 million, or \$.78 per diluted share, in 2000. The quarter-over-quarter decrease in earnings largely reflects the sales decline and lower operating margins resulting from unfavorable operating leverage associated with the lower-than-planned sales. Contributing to the 2001 margin erosion were higher training and recruiting costs related to Snap-on's "More Feet on the Street" dealer expansion initiative and new product development. Net earnings for the second quarter were also adversely impacted by charges totaling \$20.5 million (\$14.4 million after tax, or \$.25 per share), including restructuring and non-recurring charges of \$14.4 million and other non-comparable charges of \$6.1 million.

In the second quarter of 2001, Snap-on announced that it is taking significant action to (i) reduce costs companywide to adjust to the slower sales environment and (ii) improve operational performance in businesses not earning acceptable financial returns. In implementing these actions, Snap-on anticipates that it will incur restructuring, non-recurring and other non-comparable, pre-tax charges that will total approximately \$65 million to \$75 million in 2001, including charges incurred during the second quarter of \$20.5 million. Net earnings for the second quarter of 2001 were \$23.3 million, or \$.40 per share, excluding the second quarter 2001 charges.

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SNAP-ON INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Net earnings, before the cumulative effect of a change in accounting principle in both years, were \$38.3 million, or \$.66 per share, for the first six months of 2001, as compared with \$81.0 million, or \$1.38 per diluted share, in 2000. The year-over-year decrease in earnings is primarily due to lower sales and higher operating expenses as a result of unfavorable operating leverage from the lower sales volumes, higher training and recruiting costs associated with the More Feet on the Street initiative, higher energy-driven costs and increased costs for new product development.

Net earnings for the first six months of 2001 were \$35.8 million, or \$.61 per share, as compared to \$106.4 million, or \$1.81 per share, in the comparable prior-year period. In 2001, Snap-on incurred a net charge of \$2.5 million, or \$.05 per share, for the cumulative effect of an accounting change associated with Snap-on's adoption of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." Net earnings in 2000 included a net gain of \$25.4 million, or \$.43 per share, for the cumulative effect of an accounting change related to pensions. This change, which occurred during the fourth quarter of 2000, was retroactive to the first quarter of 2000. As a result, previously reported second quarter and year-to-date 2000 results have been restated to reflect a reduction in periodic pension expense of \$2.4 million pretax (\$1.5 million after tax) and \$4.8 million pretax (\$3.0 million after tax), respectively, as a result of this change.

Gross profit for the second quarter of 2001 was \$239.3 million, down 9.6% from \$264.8 million in the second quarter of 2000. As a percentage of net sales, gross profit margin in the second quarter of 2001 declined to 45.5%, as compared to 47.0% in the comparable prior-year period. Gross profit for the first six months of 2001 was \$483.0 million, down 6.0% from \$513.7 million in the prior-year period. As a percentage of net sales, gross profit margin for the first six months of 2001 declined to 45.9%, versus 46.4% in the first six months of 2000. The year-over-year decline in gross margin for both periods primarily reflects the under-absorption of manufacturing costs on the lower-than-planned volume, the margin erosion effect of having sourcing platforms principally in strong currency countries, higher energy-driven costs, lower production utilization as a result of inventory reduction initiatives.

Operating expenses for the second quarter of 2001 were \$205.9 million, up \$12.4

million or 6.4%, as compared to \$193.5 million in the second quarter of 2000. As a percentage of net sales, operating expenses increased to 39.2% of net sales in the second quarter of 2001, versus 34.4% in 2000. For the first six months of 2001, operating expenses were \$408.4 million, up \$19.6 million or 5.0%, as compared to \$388.8 million in the first six months of 2000. As a percentage of net sales, year-to-date 2001 operating expenses were 38.8%, as compared to 35.1% in the comparable prior-year period. The year-over-year increase in operating expenses for both periods is largely due to the unfavorable operating leverage from the lower-than-planned sales volumes and the inclusion of costs primarily associated with the termination of a European equipment supplier arrangement. Higher costs, including increased training and recruiting, for the continued investment in Snap-on's dealer expansion initiative, as well as increased energy-driven costs and costs for new product development, also contributed to the year-over-year margin compression.

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SNAP-ON INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Segment Results

Snap-on Dealer Group

In the worldwide Snap-on Dealer Group segment, sales of \$261.3 million for the second quarter of 2001 were down 7.0% from the comparable prior-year levels. Organic sales decreased 5%, largely due to softness in demand for big-ticket products, and currency translation had an unfavorable impact of 2%. Sales of \$517.7 million for the first six months of 2001 were down 5.1% as compared to the first six months of 2000, also reflecting lower sales of big-ticket products and a negative 2% impact of currency translation. In the U.S. dealer business for both the second quarter and first six months of 2001, a modest sales increase in tools and tool storage products was offset by the decrease in sales of big-ticket equipment and diagnostic products, which are primarily sold through the tech rep sales organization. International dealer sales were down 6% on a reported basis for the second quarter of 2001, and down 7% for the first six months of 2001 versus the comparable prior-year periods, despite volume increases in local currencies. Year-to-date June 2001, a net increase of 130 dealers in the United States is progressing in line with the target of a 10% increase in the More Feet on the Street program by mid-year 2002.

Segment earnings for the second quarter of 2001 were \$25.9 million, as compared to \$43.9 million in the second quarter of 2000. On a year-to-date basis, segment earnings for the Snap-on Dealer Group were \$53.8 million, versus \$77.8 million in the comparable prior-year period. Segment earnings for both periods in 2001 were compressed largely as a result of the negative impact of operating leverage on the lower-than-planned sales volume, the impact of having non-U.S. dealer operations supplied by U.S. manufacturing facilities and higher training and recruiting costs related to expanding the dealer base.

Commercial and Industrial Group

In the Commercial and Industrial Group segment, sales of \$264.3 million for the second quarter of 2001 declined 6.3% from prior-year levels, largely due to continued softness in the diagnostics and equipment market, as well as a 3% impact from unfavorable currency translation. Sales of tools in the U.S. industrial sector were up modestly, while tool sales in Europe slowed slightly. Equipment sales declined 10% on a reported basis, and were off 5% excluding the impact of currency translation. The diagnostics business in Europe was down 14% in dollar terms, and was off 7% in local currencies. Equipment sales to new-vehicle dealerships under facilitation agreements also declined, reflecting the caution that exists in the current economic environment when making capital purchase decisions.

For the first six months of 2001, sales declined 4.8% principally from a 4% unfavorable currency translation impact and continued softness in the diagnostics and equipment market. Sales of tools in the U.S. industrial sector were up, while tool sales in Europe were down. Equipment sales declined 10% on a reported basis, and were off 6% excluding the impact of currency translation. The diagnostics business in Europe was down 10% in dollar terms, and was off 3% in local currencies. Equipment sales to new-vehicle dealerships under facilitation agreements also declined.

SNAP-ON INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Segment earnings for the second quarter of 2001 were \$7.5 million, as compared to \$27.4 million in the second quarter of 2000. For the first six months of 2001, segment earnings were \$20.8 million, as compared to \$47.1 million in the first six months of 2000. The decline in segment earnings in both periods reflects the lower sales volumes, as well as unfavorable operating leverage from the \$5.6 million non-comparable charges incurred in the second quarter of 2001, primarily related to the termination of a European supplier agreement.

Restructuring and Non-Recurring Charges

In the second quarter of 2001, Snap-on announced that it is taking significant action to (i) reduce costs companywide to adjust to the slower sales environment and (ii) improve operational performance in businesses not earning acceptable financial returns. As a result of selective rationalization and consolidation actions, Snap-on expects to reduce its global workforce of 14,000 by approximately 4%. In implementing these actions, Snap-on anticipates that it will incur restructuring, non-recurring and other non-comparable, pre-tax charges that will total \$65 million to \$75 million in 2001, including second-quarter charges of \$20.5 million. Approximately 50% of the total second quarter of 2001 charges were non-cash, with the remaining costs requiring cash outflows provided from operations.

In the second quarter of 2001, Snap-on recorded restructuring and other non-recurring charges totaling \$14.4 million (\$9.0 million after tax), primarily for various exit-related costs, asset impairment write-downs and management transition costs. This charge includes a \$6.0 million restructuring reserve and \$8.4 million in non-recurring charges. The restructuring charge relates to the closure of nine facilities, comprised of four manufacturing facilities and five sales/administration offices, and includes \$1.1 million for severance associated with the elimination of 98 positions, \$4.7 million for non-cancelable lease agreements and related facility asset write-downs, and \$0.2 million for other exit costs. Severance costs provided for worldwide salaried and hourly employees relate to facility closures, consolidation and streamlining initiatives. During the second quarter of 2001, Snap-on incurred expenditures of \$2.0 million against the \$6.0 million restructuring reserve for facility asset write-downs and for severance costs. At the end of the second quarter of 2001, severance costs for 11 of the 98 positions have been incurred. The remaining restructuring reserve of \$4.0 million at June 30, 2001 is expected to be fully utilized by the end of 2001. The second quarter of 2001 non-recurring charges of \$8.4 million represent management transition costs associated with the April 2001 retirement of Snap-on's president and chief executive officer and the appointment of Dale F. Elliott, Snap-on's President - diagnostics and industrial, as successor to this position.

As part of the total second quarter charges, Snap-on recorded non-comparable costs of \$6.1 million (including \$1.5 million reported in cost of goods sold and \$4.6 million reported in operating expenses), primarily related to the termination of a European equipment supplier arrangement.

SNAP-ON INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Other

Net finance income was \$7.9 million and \$20.0 million for the second quarter and first six months of 2001, a decline from \$10.5 million and \$22.2 million in the comparable prior-year periods. The decrease in both periods is a result of the inclusion of deferred income in 2000 from the sale of extended-credit receivables associated with the formation of the joint venture in 1999 and lower originations in the second quarter related to the soft demand for equipment and

diagnostics products. The decrease for both periods was partially offset by a more favorable interest rate environment.

Interest expense for the second quarter of 2001 was \$9.2 million, a decrease of \$1.4 million from the prior-year period. For the first six months of 2001, interest expense of \$18.1 million was down \$2.8 million from \$20.9 million for the first six months of 2000. The decrease in interest expense is the result of lower debt levels and lower average interest rates in 2001, as compared to the prior-year periods.

Other income (expense) - net was an expense of \$1.6 million in the second quarter of 2001, as compared to income of \$0.8 million in the second quarter of 2000. For the first six months of 2001, other income (expense) - net was income of \$0.3 million, as compared to income of \$1.9 million for the comparable prior-year period. The change in other income (expense) for both periods reflects the impact of all non-operating items such as interest income, minority interests, disposal of fixed assets, exchange rate transactions, hedging gains and losses, gains from life insurance policies and other miscellaneous items.

The effective tax rate, before cumulative effect, restructuring, non-recurring and other non-comparable items, was 36.5% for the second quarter and first six months of 2001. The tax rate on the second quarter 2001 restructuring, non-recurring and other non-comparable charges of \$20.5 million was 29.8%. Including these charges, Snap-on's overall effective tax rate, before cumulative effect of accounting change, was 44.7% in the second quarter of 2001 and 38.6% for the first six months of 2001. For 2000, the effective tax rate, before cumulative effect of accounting change, was 36.5% for both the second quarter and first six months of 2000.

FINANCIAL CONDITION

Cash and cash equivalents were \$6.5 million at the end of the second quarter, up slightly from \$6.1 million at the end of 2000. Net cash provided by operating activities decreased to \$26.3 million for the first six months of 2001, as compared to \$55.7 million in the comparable prior-year period, primarily due to the year-over-year decline in earnings. Working capital decreased to \$697.7 million at the end of the second quarter of 2001, down \$56.8 million from \$754.5 million at the end of the second quarter of 2000, largely reflecting the operational focus on improved inventory turnover.

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SNAP-ON INCORPORATED MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The total-debt-to-total-capital ratio at the end of the second quarter of 2001 was 39.8%, as compared to 40.6% in the prior-year period, and 39.2% at year-end 2000. Total invested capital was \$1,372.2 million, down \$126.4 million from a year ago. Total debt levels from year-end 2000 increased \$3.2 million, but were down \$61.8 million from the end of the second quarter of 2000. Total short-term and long-term debt was \$546.5 million, as compared with the prior-year level of \$608.3 million, reflecting the positive cash flow from continued focus on reducing working capital intensity.

At June 30, 2001, Snap-on had \$625.0 million of multi-currency revolving credit facilities to support its commercial paper programs. In addition to its revolving credit facilities, Snap-on has a \$300 million shelf registration that allows for the issuance from time to time of up to \$300 million in unsecured indebtedness. In October 1995, Snap-on issued \$100 million of its notes pursuant to this shelf registration. The notes, which mature in their entirety on October 1, 2005, require payment of interest on a semiannual basis at a rate of 6.625%.

Accounts receivable at the end of the second quarter were \$621.5 million, down \$23.0 million compared with year-end 2000 and down \$20.9 million from a year ago, reflecting softening sales and impacts of currency translation.

Inventories were seasonally up \$21.3 million to \$440.2 million at the end of the second quarter from \$418.9 million at the end of 2000. Inventories were down \$36.5 million from a year ago showing progress on efforts to improve inventory turnover, despite the slower sales environment.

Capital expenditures were \$23.6 million for the first six months of 2001, compared with \$25.9 million in the same period a year ago. Expenditures

primarily represent ongoing replacements and upgrades of manufacturing and distribution facilities and equipment, and additional upgrades to computer systems. For the full year 2001, Snap-on anticipates capital expenditures will be in the range of \$45 million to \$50 million, down from \$57.6 million in 2000.

Snap-on believes it has sufficient sources of liquidity to support working capital requirements, finance capital expenditures, make acquisitions, repurchase common stock and pay dividends.

Share repurchase: Snap-on has undertaken stock repurchases from time to time to prevent dilution created by shares issued for employee and dealer stock purchase plans, stock options, and other corporate purposes, as well as to repurchase shares when market conditions are favorable. During the second quarter of 2001, Snap-on repurchased 75,000 shares of common stock for \$2.2 million under its previously announced share repurchase programs. In total, Snap-on repurchased 165,000 shares in the first six months of 2001, with approximately \$129.0 million of common stock authorized and remaining available for repurchase. Since 1995, Snap-on has repurchased 9,754,583 shares for \$301.9 million.

Foreign currency: Snap-on operates in a number of countries and, as a result, is exposed to changes in foreign currency exchange rates. Most of these exposures are managed on a consolidated basis to take advantage of natural offsets. To the extent that net exposures are hedged, forward contracts are used. Refer to Note 4 for a discussion of Snap-on's accounting policies for the use of derivative instruments.

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SNAP-ON INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Euro conversion: On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies ("legacy currencies") and one common currency - the euro. The euro trades on currency exchanges and may be used in business transactions. Beginning in January 2002, the new euro-denominated bills and coins will be used and legacy currencies will be withdrawn from circulation. Snap-on's operating subsidiaries have developed plans to address the systems and business issues affected by the euro currency conversion. These issues include, among others, (i) the need to adapt computer and other business systems and equipment to accommodate euro-denominated transactions, and (ii) the competitive impact of cross-border price transparency, which may affect pricing strategies. Snap-on does not expect this conversion to have a material impact on its financial condition or results of operations.

Outlook: Snap-on expects earnings per share in the third quarter to be in a range of \$0.40 to \$0.45 per share before restructuring, non-recurring and other non-comparable items, assuming no further economic deterioration, continued currency stability and typical seasonal sales factors for the remainder of the year. Snap-on expects to benefit from its cost savings activities and see sequential earnings improvement in the fourth quarter, with earnings per share in a range of \$0.55 to \$0.65 per share before restructuring, non-recurring and other non-comparable items. In the second quarter of 2001, Snap-on announced that it is taking significant action to (i) reduce costs companywide to adjust to the slower sales environment and (ii) improve operational performance in businesses not earning acceptable financial returns. In implementing these actions, Snap-on anticipates that it will incur restructuring, non-recurring and other non-comparable, pre-tax charges that will total approximately \$65 million to \$75 million in 2001, including charges of \$20.5 million incurred during the second quarter. Further improvements are expected in 2002, as Snap-on realizes continuing benefits from its cost reduction and growth initiatives.

Safe Harbor: Statements in this document that are not historical facts, including statements (i) that include the words "expects," "likely," "targets," "anticipates," or "estimates" or similar words that reference Snap-on or its management; (ii) specifically identified as forward-looking; or (iii) describing Snap-on's or management's future outlook, plans, objectives or goals, are forward-looking statements. Snap-on or its representatives may also make similar forward-looking statements from time to time orally or in writing. Snap-on cautions the reader that these statements are subject to risks, uncertainties or other factors that could cause (and in some cases have caused) actual results to differ materially from those described in any such statement. Those important factors include the timing and progress with which Snap-on can continue to achieve higher productivity and attain further cost reductions, including the

acceleration of expense adjustments in response to revenue changes; Snap-on's ability to adapt to management changes as part of the management succession process, to retain and attract dealers, to integrate Bahco, and to withstand external negative factors including changes in trade, monetary and fiscal policies, laws and regulations, or other activities of governments or their agencies; and the absence of significant changes in the current competitive environment, inflation, energy supply or pricing, legal proceedings, supplier disruptions, currency fluctuations or the material worsening of economic and political situations around the world. These factors may not constitute all factors that could cause actual results to differ materially from those discussed in any forward-looking statement. Snap-on operates in a continually changing business environment and new factors emerge from time to time. Snap-on cannot predict such factors nor can it assess the impact, if any, of such factors on Snap-on's financial position or its results of operations. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Snap-on disclaims any responsibility to update any forward-looking statement provided in this document.

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Item 3: Quantitative and Qualitative Disclosures About Market Risk

Snap-on uses derivative instruments to manage well-defined interest rate and foreign currency exposures and to limit the impact of interest rate and foreign currency rate changes on earnings and cash flows. Snap-on does not use derivative instruments for trading purposes.

Value at Risk: Snap-on utilizes a "Value-at-Risk" ("VAR") model to determine the potential one-day loss in the fair value of its interest rate and foreign exchange-sensitive financial instruments from adverse changes in market factors. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Snap-on's computations are based on the inter-relationships among movements in various currencies and interest rates (variance/co-variance technique). These inter-relationships were determined by observing interest rate and foreign currency market changes over the preceding quarter.

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, at June 30, 2001, was \$0.2 million on interest-rate-sensitive financial instruments, and \$2.3 million on foreign-currency-sensitive financial instruments.

The VAR model is a risk management tool and does not purport to represent actual losses in fair value that will be incurred by Snap-on, nor does it consider the potential effect of favorable changes in market factors.

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PART II. OTHER INFORMATION

Item 4: Submission of Matters to a Vote of Security Holders

Snap-on held its Annual Meeting of Shareholders on April 27, 2001. The following is a summary of the matters voted on in that meeting. There were 64,208,265 outstanding shares eligible to vote.

- a) The shareholders elected four members of the Snap-on's Board of Directors, whose terms were up for reelection, to serve until the Annual Meeting in the year set forth below. The persons elected to the Snap-on's Board of Directors, the number of votes cast for and the number of votes withheld with respect to each of these persons were as follows:

Director -----	For ---	Withheld -----	Term ----
Robert A. Cornog	54,928,383	2,820,509	2002
Leonard A. Hadley	56,661,484	1,087,408	2004
Frank S. Ptak	56,695,749	1,053,143	2004
Edward H. Rensi	56,535,874	1,213,018	2004
Bruce S. Chelberg			2003
Arthur L. Kelly			2003
Roxanne J. Decyk			2003
Jack D. Michaels			2003
George W. Mead			2002

b) The shareholders approved the 2001 Incentive Stock and Awards Plan. The number of votes cast for and against, as well as the number of abstentions and broker non-votes, are as follows:

Votes For	Against	Abstained	Broker Non-Votes
-----	-----	-----	-----
44,975,282	6,691,411	562,350	5,519,849

Item 5: Other Information

On April 24, 2001, Dale F. Elliott was elected president and chief executive officer, effective April 27, 2001.

On April 27, 2001, Robert A. Cornog retired as president and chief executive officer. Mr. Cornog will remain as chairman of the Board of Directors until the Annual Shareholders' meeting in April 2002. In addition, the Board of Directors appointed Mr. Elliott to the Board. As is customary practice with new Directors, Mr. Elliott joined the class of Directors to serve until the next Annual Shareholders' meeting.

Effective June 1, 2001, Mr. Branko M. Beronja tendered his resignation as a Director in light of other commitments.

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PART II. OTHER INFORMATION (continued)

Item 6: Exhibits and Reports on Form 8-K

Item 6(a): Exhibits

- (10.1) Amended and Restated Snap-on Incorporated Deferred Compensation Plan, as amended by the Board of Directors on June 22, 2001.
- (10.2) Employment Agreement between Snap-on Incorporated and Dale F. Elliott, effective as of April 27, 2001.
- (12) Computation of Ratio of Earnings to Fixed Charges

Item 6(b): Reports on Form 8-K Filed During the Reporting Period

During the second quarter of 2001, Snap-on reported on Form 8-K the following:

Date Filed	Date of Report	Item
-----	-----	----
June 18, 2001	June 18, 2001	Item 9. Snap-on filed a press release announcing second quarter 2001 performance expectations.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Snap-on Incorporated has duly caused this report to be signed on its behalf by the undersigned duly authorized person.

SNAP-ON INCORPORATED

Date: August 10, 2001	/s/ Blaine A. Metzger
-----	-----
	Blaine A. Metzger, Principal Accounting Officer, Vice President and Controller

EXHIBIT INDEX

Exhibit -----	Description -----
(10.1)	Amended and Restated Snap-on Incorporated Deferred Compensation Plan, as amended by the Board of Directors on June 22, 2001.
(10.2)	Employment Agreement between Snap-on Incorporated and Dale F. Elliott, effective as of April 27, 2001.
(12)	Computation of Ratio of Earnings to Fixed Charges

SNAP-ON INCORPORATED

DEFERRED COMPENSATION PLAN

(as amended through June 22, 2001)

Section 1. Establishment and Purposes

1.1 Establishment. Snap-on Incorporated hereby establishes, effective as of April 1, 1986, a deferred compensation plan for executives as described herein, which shall be known as the "SNAP-ON INCORPORATED DEFERRED COMPENSATION PLAN" (hereinafter called the "Plan").

1.2 Purposes. The purposes of this Plan are to enable the Corporation to attract and retain persons of outstanding competence, to provide a means whereby certain amounts payable by the Corporation to selected executives may be deferred to some future period and to provide such executives with a means to have deferred amounts treated as if invested in the Corporation's stock, thereby aligning their interests more closely with the interests of shareholders. The plan is intended to constitute an unfunded plan primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees.

Section 2. Definitions

2.1 Definitions. Whenever used herein, the following terms shall have the meanings set forth below:

- (a) "Board" means the Board of Directors of the Corporation.
- (b) "Committee" means the Organization and Compensation Committee of the Board.
- (c) "Common Stock" means the common stock, par value \$1.00 per share, of the Corporation.
- (d) "Compensation" means the gross Salary and Incentive Compensation payable to a Participant during a Year and Other Compensation payable to a Participant.
 - (i) Salary. "Salary" means all regular, basic compensation, before reduction for amounts deferred pursuant to this Plan or any other plan of the Corporation, payable in cash to a Participant for services during the Year, exclusive of any bonuses or incentive compensation, special fees or awards, allowances, or amounts designated by the Corporation as payments toward or reimbursement of expenses.
 - (ii) Incentive Compensation. "Incentive Compensation" means the annual Incentive Compensation Plan payable in cash by the Corporation to a Participant in a Year.
 - (iii) Other Compensation. "Other Compensation" means other compensation payable in cash and/or Common Stock or other property by the Corporation to a Participant in a Year, including without limitation compensation payable under the Amended and Restated Snap-on Incorporated 1986 Incentive Stock Program, as amended (the "Stock Program"), if the award of such compensation provides that the Participant may defer the compensation.
- (e) "Corporation" means Snap-on Incorporated, a Delaware corporation.
- (f) "Fair Market Value" means the closing price of the Common Stock on the New York Stock Exchange on any particular date; provided, however, that for purposes of Section 16, Fair Market Value shall mean the closing price of the Common Stock on the New York Stock Exchange on the date of the Change of Control (as defined therein) or, if higher, the highest price per share of Common Stock paid in the transaction giving rise to the Change of Control.
- (g) "Growth Increment" means the amount of interest earned on a Participant's deferred amounts.

(h) "Participant" means an individual selected by the Committee for participation in the Plan.

(i) "Year" means a calendar year.

2.2 Gender and Number. Except when otherwise indicated by the context, any masculine terminology used herein also shall include the feminine gender, and the definition of any term herein in the singular also shall include the plural.

Section 3. Eligibility and Participation

3.1 Eligibility. The elected officers and appointed officers of the Corporation and, effective as of January 1, 1996, the elected and appointed officers of Snap-on Tools Company and of any other direct or indirect subsidiary of the Corporation designated by the Committee from time to time shall be eligible to participate in this Plan.

3.2 Ceasing Eligibility. In the event a Participant no longer meets the requirements for participation in this Plan, he shall become an inactive Participant, retaining all the rights described under this Plan, except the right to make any further deferrals, until the time that he again meets the eligibility requirements of Section 3.1.

Section 4. Election to Defer

4.1 Deferral Election. (a) Subject to the following provisions, prior to the beginning of the Year, a Participant irrevocably may elect, by written notice to the Corporation, to defer all or a percentage of annual Salary, Incentive Compensation, or both Salary and Incentive Compensation. The amount to be deferred each year must equal or exceed \$5,000.

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(i) With respect to Salary deferrals, the deferral percentage elected shall be applied to the Participant's Salary for each pay period of the Year to which the Deferral Election applies and must be made before November 30 of the year immediately preceding the Year for which such Deferral Election applies.

(ii) With respect to Incentive Compensation deferrals, the deferral percentage elected shall apply only to the Participant's Incentive Compensation payable with respect to service to be performed in the Year and must be made before December 31 of such Year.

(b) An individual who becomes a Participant at or after the beginning of the Year may irrevocably elect, by written notice to the Corporation, to defer all or a percentage of (i) the annual Salary earned by such Participant for such Year after such election, if such election is made within 30 days after becoming a Participant, and (ii) the pro rata share of the Participant's Incentive Compensation, if any, payable with respect to service performed during such Year, if such election is made before December 31 of such Year.

(c) If so provided in an award of Other Compensation, and subject to such restrictions and conditions as may be set forth in the award or imposed by the Corporation, a Participant irrevocably may elect, by written notice to the Corporation, to defer all or a percentage of such Other Compensation.

4.2 Deferral Period. (a) The Participant irrevocably shall select the deferral period for each separate deferral. The deferral period shall be for a specified number of years or until a specified date. The deferral period shall not be less than five years.

(b) However, notwithstanding the deferral period specified, payments shall begin following the earliest to occur of:

(i) Death,

(ii) Total and permanent disability,

(iii) Subject to subsection (c), retirement, or

(iv) Subject to subsection (c), termination of employment.

- (c) A Participant may elect to have the deferral period for some or all amounts deferred continue beyond termination of employment due to retirement by so indicating when the Participant selects, or modifies pursuant to Section 4.4, the Participant's deferral period for a deferral. At such time the Participant may elect one or more successive post retirement deferral periods of up to five years each.

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4.3 Manner of Payment Election. At the same time as an election is made pursuant to Section 4.1, or is modified pursuant to Section 4.4, the Participant may also elect to have a deferred amount paid either in a lump sum or in up to twenty substantially equal annual installments; provided, however, at such time a Participant that elects to receive payments in substantially equal annual installments may also specify a date within the installment period to receive all then remaining deferred amounts in a lump sum.

4.4 Modification. A Participant may change the manner in which a deferred amount will be paid and/or the date such payments are to commence by written election made prior to the Year in which such payments are to commence.

Section 5. Deferred Compensation Account

5.1 Participant Accounts. The Corporation shall establish and maintain individual bookkeeping accounts in respect of deferrals made by a Participant consisting of a "Cash Account" and a "Share Account." A Participant shall have separate Cash Accounts and Share Accounts for deferred amounts with different deferral periods under Section 4.2 hereof and/or manners of payment under Section 4.3 hereof. A Participant's Cash Account shall be credited with the dollar amount of any amount deferred as of the date the amount deferred otherwise would have become due and payable unless prior to such date the Participant notifies the Corporation in writing that all or any portion of the dollar amount deferred shall be converted into deferred shares of Common Stock to be credited to the Participant's Share Account. In such event (i) there shall be credited to the Participant's Share Account as of such date a number of units ("Share Units") equal to the dollar amount of any amount deferred or if less the dollar amount specified in such notice divided by the Fair Market Value on the last trading business day immediately preceding the date the amount deferred otherwise would have become due and payable and (ii) the Participant's Cash Account shall be credited as of such date with the balance of the dollar amount deferred, if any.

5.2 Growth Increments. The Corporation will provide the opportunity for Growth Increments to be earned on the balance of a Participant's Cash Accounts. The Committee will have the authority to select, from time to time, the appropriate interest rate to apply to such amounts. Each Cash Account shall be credited on the first day of each month with a Growth Increment computed on the daily balance in the Cash Account during the immediately preceding month. The Growth Increment shall be the sum of the daily interest earned, compounded monthly by the interest rate selected by the Committee.

5.3 Share Accounts.

- (a) Subject to applicable corporate policies, from time to time a Participant may convert all or a portion of any Cash Account balance of the Participant into deferred shares of Common Stock credited to the Participant's corresponding Share Account by written notice to the Corporation. In such event, and effective as of the date the Corporation receives such a notice, (i) there shall be credited to the Participant's Share Account a number of units Share Units equal to the number of Share Units specified in the notice or, if such notice specifies a dollar amount, a number of Share Units equal to such dollar amount divided

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by the Fair Market Value on the last trading business day immediately preceding the date the Corporation receives such notice and (ii) the Participant's Cash Account shall be debited in an amount equal to the number of Share Units credited to the Share Account multiplied by the Fair Market Value on the same trading business day.

- (b) Subject to the authority of the Committee, the Corporation's Chief Executive Officer may approve the terms of any agreements between the Corporation and any Participant relating to the deferral of Other Compensation where, but for the Participant's deferral, the Participant would have received shares of Common Stock if such officer determines that such terms are appropriate to carry out the purposes of this Plan and the award of Other Compensation. Without limitation, the Corporation may enter into an agreement with a Participant relating to such a deferral under which (i) (A) there shall be credited to the Participant's Share Account a number of Share Units equal to the number of shares of Common Stock the receipt of which the Participant has deferred which credit shall be made as of the date the Other Compensation deferred otherwise would have become due and payable or (B) Share Units shall be credited to the Participant's Share Account only at a future date, such as the date that one or more conditions to vesting have been satisfied; (ii) a credit of Share Units may be made subject to such restrictions as are imposed under the terms of the award of Other Compensation (or restrictions substantially equivalent to those to which shares of Common Stock would have been subject but for the deferral), including without limitation forfeiture under certain circumstances and restrictions on the Participant's rights to convert such Share Units pursuant to Section 5.3(d); and (iii) if the terms of the award of Other Compensation require a Participant to deliver cash and/or shares of Common Stock to the Corporation to exercise or otherwise receive the benefit of such Other Compensation, then in lieu of delivering such cash and/or Common Stock, there may be a debit to the Participant's Cash Account in an amount equal to the amount of cash that the Participant otherwise would have delivered and/or a debit to the Participant's Share Account in an amount equal to the number of shares of Common Stock that the Participant otherwise would have delivered, in each case to the extent of any credit balance in such account.
- (c) Whenever cash dividends are paid by the Corporation on outstanding Common Stock, as of the payment date for the dividend, at the election of a Participant (i) there shall be credited to a Participant's Cash Account an amount equal to the amount per share of the cash dividend on the Common Stock multiplied by the number of Share Units reflected in the Participant's Share Account, if any, as of the close of business on the record date for the dividend or (ii) there shall be credited to a Participant's Share Account additional Share Units equal to the cash amount described in clause (i) divided by the Fair Market Value of the Common Stock on the last trading business day immediately preceding the date of payment of the dividend. Absent an express election by a Participant, clause (i) shall apply. A Participant shall be entitled to elect treatment under clause (i) as to some Share Units reflected in the Participant's Share Account and treatment under clause (ii) as to other Share Units reflected in the Participant's Share Account.
- (d) Subject to applicable corporate policies, from time to time a Participant with a credit balance in a Share Account may convert all or a portion of such balance into an amount to

be credited to the Participant's corresponding Cash Account by giving written notice to the Corporation. In such event, and effective as of the date the Corporation receives such a notice, (i) there shall be credited to the Participant's Cash Account an amount equal to the number of Share Units specified in the notice multiplied by the Fair Market Value on the last trading business day immediately preceding the date the Corporation receives such notice and (ii) the Participant's Share Account shall be debited by the number of Share Units specified in the notice.

5.4 Charges Against Accounts. There shall be charged against a Participant's Cash Account any cash payments (excluding payments for fractional shares) made to the Participant or to his beneficiary in accordance with Section 6 hereof. There shall be charged against a Participant's Share Account any distributions made to the Participant or to his beneficiary in respect of the Participant's Share Account in accordance with Section 6 hereof.

Section 6. Payment of Deferred Amounts

6.1 Payment of Deferred Amounts.

- (a) Payment of a Participant's Cash Account balance, including accumulated Growth Increments attributable thereto and dividend credits under Section 5.3(b), shall be paid in cash commencing within thirty calendar days after the commencement date referred to in Section 4.2 hereof. The payments shall be made in the manner selected by the Participant under Section 4.3 of this Plan or, in the absence thereof, in a lump sum. The amount of each payment shall be equal to a Participant's then distributable Cash Account balance multiplied by a fraction, the numerator of which is one and the denominator of which is the number of installment payments remaining.
- (b) Payment of a Participant's Share Account balance shall be paid commencing within thirty calendar days after the commencement date referred to in Section 4.2 hereof. Payments in respect of a Share Account balance shall be made by converting Share Units into Common Stock on a one-for-one basis, with payment of fractional shares to be made in cash based upon the Fair Market Value on the last trading business day immediately preceding the date of payment; provided, however, that at the election of a Participant, made by written notice to the Corporation delivered not less than five business days before a payment due date, payments in respect of a Share Account may be made solely in cash in an amount equal to the number of Share Units then payable multiplied by the Fair Market Value on the last trading business day immediately preceding the date of payment. The payments shall be made in the manner selected by the Participant under Section 4.3 of this Plan or, in the absence thereof, in a lump sum. The number of Share Units payable at the time of a payment shall be equal to a Participant's then distributable Share Account balance multiplied by a fraction, the numerator of which is one and the denominator of which is the number of installment payments remaining.

6.2 Acceleration of Payments. If a Participant dies prior to the payment of all or a portion of his Cash Account and/or Share Account balances, the balance of any amounts payable shall be

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paid in a lump sum to the beneficiaries designated under Section 7 hereof. In addition, if a Participant's Cash Account balance is less than \$5,000 at the time for the payment specified, such amount shall be paid to the Participant in a lump sum, and if a Participant's Share Account balance is less than 300 Share Units at the time for the payment specified, such amount shall be paid to the Participant in a lump sum.

6.3 Financial Emergency. The Committee, at its sole discretion, may alter the timing or manner of payment of deferred amounts in the event that the Participant establishes, to the satisfaction of the Committee, severe financial hardship. In such event, the Committee may:

- (a) provide that all, or a portion of, the amount previously deferred by the Participant immediately shall be paid in a lump sum payment,
- (b) provide that all, or a portion of, the installments payable over a period of time immediately shall be paid in a lump sum, or
- (c) provide for such other installment payment schedules as it deems appropriate under the circumstances, as long as the amount distributed shall not be in excess of that amount which is necessary for the Participant to meet the financial hardship.

Severe financial hardship will be deemed to have occurred in the event of the Participant's impending bankruptcy, a dependent's long and serious illness, or other events of similar magnitude. The Committee's decision in passing on the severe financial hardship of the Participant and the manner in which, if at all, the payment of deferred amounts shall be altered or modified shall be final, conclusive, and not subject to appeal.

Section 7. Beneficiary Designation

7.1 Designation of Beneficiary. A Participant shall designate a beneficiary or beneficiaries who, upon the Participant's death, are to receive the amounts that otherwise would have been paid to the Participant. All designations shall be in writing to the Corporation in such form as it requires or accepts and signed by the Participant. The designation shall be effective only if and when delivered

to the Corporation during the lifetime of the Participant. The Participant also may change his beneficiary or beneficiaries by a signed, written instrument delivered to the Corporation. However, if a married Participant maintains his primary residence in a state that has community property laws, the Participant's spouse shall join in any designation of a beneficiary or beneficiaries other than the spouse. The payment of amounts shall be in accordance with the last unrevoked written designation of beneficiary that has been signed and delivered to the Corporation.

7.2 Death of Beneficiary. In the event that all of the beneficiaries named in Section 7.1 predecease the Participant, the amounts that otherwise would have been paid to the Participant shall be paid to the Participant's estate, and in such event, the term "beneficiary" shall include his estate.

7.3 Ineffective Designation. In the event the Participant does not designate a beneficiary, or if for any reason such designation is ineffective, in whole or in part, the amounts that otherwise would have been paid to the Participant shall be paid to the Participant's estate, and in such event, the term "beneficiary" shall include his estate.

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Section 8. Rights of Participants

8.1 Contractual Obligation. It is intended that the Corporation is under a contractual obligation to make payments from a Participant's account when due. Payment of account balances payable in cash shall be made out of the general funds of the Corporation as determined by the Board.

8.2 Unsecured Interest. No Participant or beneficiary shall have any interest whatsoever in any specific asset of the Corporation. To the extent that any person acquires a right to receive payments under this Plan, such receipt shall be no greater than the right of any unsecured general creditor of the Corporation.

8.3 Employment. Nothing in the Plan shall interfere with or limit in any way the right of the Corporation to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Corporation.

8.4 Participation. No employee shall have a right to be selected as a Participant or, having been so selected, to be selected again as a Participant.

Section 9.

9.1 Nontransferability. In no event shall the Corporation make any payment under this Plan to any assignee or creditor of a Participant or a beneficiary. Prior to the time of a payment hereunder, a Participant or a beneficiary shall have no rights by way of anticipation or otherwise to assign or otherwise dispose of any interest under this Plan nor shall such rights be assigned or transferred by operation of law.

Section 10. Administration

10.1 Administration. This Plan shall be administered by the Committee. The Committee may from time to time establish rules for the administration of this Plan that are not inconsistent with the provisions of this Plan.

10.2 Finality of Determination. The Committee has sole discretion in interpreting the provisions of the Plan. The determination of the Committee as to any disputed questions arising under this Plan, including questions of construction and interpretation, shall be final, binding, and conclusive upon all persons.

10.3 Expenses. The cost of payment from this Plan and the expenses of administering the Plan shall be borne by the Corporation.

10.4 Action by the Corporation. Any action required or permitted to be taken under this Plan by the Corporation shall be by resolution of the Board of Directors, by the duly authorized Committee of the Board of Directors, or by a person or persons authorized by resolution of the Board of Directors or the Committee.

Section 11. Amendment and Termination

11.1 Amendment and Termination. The Corporation expects the Plan to be permanent but, since future conditions affecting the Corporation cannot be anticipated or foreseen, the Corporation necessarily must and does hereby reserve the right to amend, modify, or terminate the Plan at any time by action of this Board. Notwithstanding the foregoing, upon the occurrence of a Potential Change of Control (as hereinafter defined) and for a period of six months thereafter, the Plan may not be terminated or amended in a manner adverse to Participants. For purposes hereof, a "Potential Change of Control" shall be deemed to have occurred if an event set forth in any one of the following shall have occurred:

- (i) The Corporation enters into an agreement, the consummation of which would result in the occurrence of a Change of Control;
- (ii) The Corporation or any other Person publicly announces an intention to take or consider taking actions that, if consummated, would constitute a Change of Control;
- (iii) Any Person becomes the beneficial owner, as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Beneficial Owner"), directly or indirectly, of securities of the Corporation representing 15% or more of either the then outstanding shares of Common Stock or the combined voting power of the Corporation's then outstanding voting securities; or
- (iv) The Board adopts a resolution to the effect that, for purposes of this Plan, a Potential Change of Control has occurred.

Section 12. Applicable Law

12.1 Applicable Law. This Plan shall be governed and construed in accordance with the laws of the State of Wisconsin.

Section 13. Withholding of Taxes

13.1 Tax Withholding. The Corporation shall have the right to deduct from all contributions made to, or payments made from, the Plan any federal, state, or local taxes required by law to be withheld with respect to such contributions or payments. The Corporation may defer making payments in the form of Common Stock under the Plan until satisfactory arrangements have been made for the payment of any federal, state or local taxes required to be withheld with respect to such payment or delivery. Each Participant shall be entitled to irrevocably elect, prior to the date shares of Common Stock would otherwise be delivered hereunder, to have the Corporation withhold shares of Common Stock having an aggregate value equal to the amount required to be withheld. The value of fractional shares remaining after payment of the withholding taxes shall be paid to the Participant in cash. Shares so withheld shall be valued at Fair Market Value on the last trading business day immediately preceding the date such shares would otherwise be transferred hereunder.

Section 14. Notice

14.1 Notice. Any notice required or permitted to be given under the Plan shall be sufficient if in writing and hand-delivered, or sent by a registered or certified mail, and if given to the Corporation, delivered to the principal office of the Corporation. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or the receipt for registration or certification.

Section 15. Common Stock Matters

15.1 Stock Reserved for the Plan. The Corporation shall make available as and when required a sufficient number of shares of Common Stock to meet the needs of the Plan. Shares of Common Stock issued hereunder shall be previously issued shares reacquired and held by the Corporation.

15.2 General Restrictions.

- (a) Investment Representations. The Corporation may require any Participant, as a condition of receiving Common Stock, to give written assurances in substance and form satisfactory to the Corporation and its counsel to the effect that such person is acquiring the Common Stock for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Corporation deems necessary or appropriate in order to comply with federal and applicable state securities laws.
- (b) Compliance with Securities Laws. Delivery of Common Stock under the Plan shall be subject to the requirement that, if at any time counsel to the Corporation shall determine that the listing, registration or qualification of the shares of Common Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with, the issuance of shares thereunder, such shares may not be delivered in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Committee. Nothing herein shall be deemed to require the Corporation to apply for or to obtain such listing, registration or qualification.

15.3 Effect of Certain Changes in Capitalization. If there is any change in the number or class of shares of Common Stock through the declaration of stock dividends, or recapitalization resulting in stock splits, or combinations or exchanges of such shares or similar corporate transactions, the maximum number or class of shares available under the Plan, the number or class of shares of Common Stock to be delivered hereunder and the number of Share Units in each Participant's Share Account shall be proportionately adjusted by the Committee to reflect any such change in the number or class of issued shares of Common Stock.

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Section 16. Change of Control

16.1 Change of Control. A "Change of Control" of the Company shall be deemed to have occurred if:

- (1) any "Person" (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as modified and used in Sections 13(d) and 14(d) thereof, except that for purposes of this section 16.1(1) and subsection 16.1(3), the term "Person" shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock in the Company) is or becomes the "Beneficial Owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 25% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding voting securities; or
- (2) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on January 1, 1996, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on January 1, 1996 or whose appointment, election or nomination for election was previously so approved; or
- (3) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation or approve the issuance of voting securities of the Company in connection with a merger or consolidation of the Company (or any direct or indirect subsidiary of

the Company) pursuant to applicable stock exchange requirements, other than (i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 60% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in

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which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 25% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding voting securities; or

- (4) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (in one transaction or a series of related transactions within any period of 24 consecutive months), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 75% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing, no "Change of Control" shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

16.2 Payments. Upon the occurrence of a Change of Control, and notwithstanding Section 6,

- (a) payment of a Participant's Cash Account balance shall be paid immediately in cash in a lump sum; and
- (a) payment of a Participant's Share Account balance shall be paid immediately in cash in a lump sum in an amount equal to the number of Share Units in the Share Account multiplied by the Fair Market Value.

Section 17 - RATING EVENT

17.1 Rating Event. The term "Rating Event" means the date on which the Corporation's debt rating drops below an Investment Grade Rating. "Investment Grade Rating" means a rating at or above Baa3 by Moody's Investors Services, Inc. (or its successors) or a rating at or above BBB by Standard & Poor's Corporation (or its successors). Only one such rating at the required level is necessary for the Corporation to have an Investment Grade Rating for purposes of this Section. If either or both of these ratings cease to be available then an equivalent rating from a nationally prominent rating agency shall be substituted by the Corporation.

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17.2 Payment. Upon the occurrence of a Rating Event, and notwithstanding Section 6:

- (a) a Participant's Cash Account balance shall be paid immediately in cash in a lump sum; and

- (b) payments in respect of a Share Account balance shall be made immediately by converting Share Units into Common Stock on a one-for-one basis, with payment of fractional shares to be made in cash based upon the Fair Market Value on the last trading business day immediately preceding the date of payment; provided, however, that at the election of a Participant, made by written notice to the Company prior to delivery of such Common Stock, payments in respect of a Share Account may be made solely in cash in an amount equal to the number of Share Units then payable multiplied by the Fair Market Value on the last trading business day immediately preceding the date of payment."
- (c) In addition to payment of the Participant's Cash Account balance as described above, the Corporation shall pay the Participant an amount equal to the interest that would have been earned on the Accelerated Tax Amount from the date of the Rating Event to the date payment of the deferred amounts were then scheduled to commence, calculated at the interest rate determined under Section 5.2 hereof, compounded monthly, which interest amount shall then be discounted to the date of payment at a discount rate equal to the rate determined under Section 5.2. The Accelerated Tax Amount means the Participant's Cash Account balance multiplied by the Assumed Tax Rate. The Assumed Tax Rate means a percentage which reflects the highest stated federal and state income tax rates imposed on residents of Wisconsin after giving effect to the deductibility of state income taxes.

17.3 Revocation of Election. Upon the occurrence of a Rating Event all deferral elections made prior thereto are revoked.

EMPLOYMENT AGREEMENT

THIS AGREEMENT by and between Snap-on Incorporated, a Delaware corporation (the "Company"), and Dale F. Elliott (the "Executive"), is effective as of April 27, 2001 (the "Effective Date").

W I T N E S S E T H:

WHEREAS, the Company wishes to provide for the employment by the Company of the Executive, and the Executive wishes to serve the Company, in the capacities and on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, it is hereby agreed as follows:

1. TERM. The term of this Agreement (the "Term") shall commence as of the Effective Date and end on the third anniversary of the Effective Date; provided, however, that commencing on the second anniversary of the Effective Date and on each subsequent anniversary of the Effective Date (each such anniversary, a "Renewal Date"), the Term shall automatically be extended for one additional year unless, not later than such Renewal Date, the Company or the Executive shall have given notice not to extend the Term. During the Term, the Company shall employ the Executive, and the Executive shall serve the Company, on the terms and conditions set forth in this Agreement.

2. POSITION AND DUTIES. (a) Effective as of the resignation of the Company's Chief Executive Officer, the Executive shall serve as the Chief Executive Officer and President of the Company, with such duties and responsibilities as are consistent with such positions and the Company's by-laws, and such other duties and responsibilities not inconsistent therewith as may from time to time be assigned to him by the Board of Directors of the Company (the "Board"). As soon as practicable following the Effective Date, the Company shall use its best efforts to cause the Executive to be appointed as a member of the Board. During the Term, the Executive shall report solely to the Board.

(b) During the Term, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive shall devote his full attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive under this Agreement, use the Executive's reasonable best efforts to carry out such responsibilities faithfully and efficiently. It shall not be considered a violation of the foregoing for the Executive to serve on corporate, industry, civic or charitable

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boards or committees, so long as the Executive has received written consent in advance of the commencement of each such service or to devote time to his personal, legal and financial matters, as long as such activities, individually or in the aggregate, do not materially interfere with the performance of the Executive's responsibilities hereunder.

(c) During the Term, the Executive shall be based at the Company's principal headquarters, except for travel reasonably required for the performance of the Executive's duties hereunder.

3. COMPENSATION. (a) BASE SALARY. During the Term, the Executive shall receive an initial annual base salary (the "Annual Base Salary") of \$600,000, which shall be paid in monthly increments of \$50,000, except to the extent deferred. The Annual Base Salary shall be payable in accordance with the Company's regular payroll practice for its senior executives, as in effect from time to time. During the Term, the Annual Base Salary shall be reviewed by the Organization and Executive Compensation Committee of the Board (the "Compensation Committee") at least annually. The Annual Base Salary may be decreased by the Board only as part of (a) a restructuring of the Company's compensation structure with respect to its elected officers, so long as the Executive's targeted total annual cash compensation is not reduced or (b) an across-the-board reduction in the compensation of the Company's elected officers. To the extent that the Annual Base Salary is increased or decreased, the term "Annual Base Salary" shall refer to the Annual Base Salary as so increased or decreased.

(b) ANNUAL CASH INCENTIVE. The Executive shall be eligible to participate in the Company's annual cash incentive program in accordance with its terms. The Executive's minimum target annual cash incentive opportunity (the "Target Annual Incentive") under such program for fiscal 2001 shall be 100% of Annual Base Salary. In the event that the performance taken into account under such incentive program exceeds targeted levels, the Executive's bonus shall be increased above the Target Annual Incentive, in proportion to the actual level of achievement, subject to the maximum percentage provided by the terms of such program, (i) with any eventual payout adjusted to reflect any change in the Annual Base Salary during such year and (ii) multiplied by a fraction, the numerator of which is the number of full months during such year during which the Executive was employed by the Company as its Chief Executive Officer and President and the denominator of which is 12. The Executive's bonus for the portion of fiscal 2001 prior to the Executive becoming Chief Executive Officer and President of the Company shall be determined using the annual base salary and applicable percentage in effect with respect to the Executive immediately prior to the Effective Date. For years following fiscal 2001, the Executive's Target Annual Incentive shall be determined

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based on the Company's annual review of market practices and the Company's compensation plans, subject in all events to a minimum of 85% of the Executive's Annual Base Salary; provided, however, that such minimum Target Annual Incentive may be decreased by the Board only as part of (a) a restructuring of the Company's compensation structure with respect to its elected officers, so long as the Executive's targeted total annual cash compensation is not reduced or (b) an across-the-board reduction in the compensation of the Company's elected officers.

(c) INCENTIVE COMPENSATION OTHER THAN ANNUAL CASH INCENTIVE. The Executive shall be eligible to participate in the Company's other incentive compensation plans in accordance with their terms. For each of fiscal 2001 and fiscal 2002, the Executive's annualized target incentive opportunity under the Company's intermediate incentive plan shall be \$300,000, payable in accordance with the terms of such plan. Future intermediate or long-term incentive opportunities shall be determined by the Board in accordance with the Company's annual review of market practices and the Company's compensation plans.

(d) OTHER BENEFITS. During the Term, the Executive shall be entitled to participate in the benefit plans and perquisite programs of the Company that are generally made available to other senior officers of the Company.

(e) EQUITY AWARDS.

(i) As soon as practicable following, and contingent upon, shareholder approval of the Company's 2001 Incentive Stock and Awards Plan (the "2001 Plan"), the Compensation Committee shall grant to the Executive a stock option (the "Option") to purchase 200,000 shares of the Company's common stock ("Company Stock") pursuant to the 2001 Plan. The Option shall (w) be memorialized in the form of a stock option agreement having terms and conditions no less favorable than the form of stock option agreement used to make option grants under the 2001 Plan to other elected officers of the Company during the month that the Option is granted, (x) have a ten year term, (y) have a per share exercise price equal to the fair market value (as defined in the 2001 Plan) of the Company Stock on the Option's date of grant and (z) subject to the provisions hereof, vest and become exercisable at the rate of one-half on each of the first two anniversaries of its date of grant.

(ii) As soon as practicable following, and contingent upon, shareholder approval of the 2001 Plan, the Compensation Committee shall also grant to the Executive 100,000 restricted share units (the "Share Units") pursuant to the 2001 Plan. Notwithstanding any provision of the 2001 Plan

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to the contrary, and subject to the provisions hereof, (x) the Share Units shall be memorialized in the form of a deferred award agreement consistent

with the terms of the 2001 Plan, (y) the restrictions on the Share Units shall lapse at the rate of one-third on their date of grant and one-third on each of the first two anniversaries of their date of grant and (z) subject to the provisions hereof, vested Share Units shall be credited in shares of Common Stock upon the earlier of (1) the Executive's termination of employment for any reason or (2) such earlier date that such Share Units may be credited without causing the Company to lose its deduction with respect to such Share Units pursuant to Section 162(m) of the Internal Revenue Code of 1986, as it may be amended (the "Code"), subject to the provisions of the 2001 Plan, including any provisions thereof with respect to deferral. Dividend equivalents will be credited pursuant to the 2001 Plan with respect to such Share Units.

(iii) During the Term, the Executive shall be entitled to be granted additional options to acquire Company Stock, restricted stock and other equity awards at the discretion of the Compensation Committee.

(f) RETIREMENT BENEFIT. The Executive shall continue to participate in the Snap-on Incorporated Retirement Plan (the "Retirement Plan") and shall elect the final average pay formula thereunder. In addition, the Executive shall be eligible to participate in the Snap-on Incorporated Supplemental Executive Retirement Plan (the "Supplemental Plan"). For purposes of calculating the Executive's pension under the Supplemental Plan, the Executive's actual years of continuous employment (used for purposes of determining vesting and eligibility) and credited service (used to compute benefits) (such years of continuous employment and credited service, "Years of Service") shall be multiplied by 1.5 (such multiplier, the "Multiplier"); provided, however, that the number of years of credited service used for calculating the Executive's benefits under the Supplemental Plan shall not exceed 35, after taking into account the application of the Multiplier. The Executive shall be deemed to be eligible for an early retirement benefit under the Supplemental Plan upon the attainment of age 50 and 10 years of continuous employment (after taking into account the application of the Multiplier). Except as set forth in Section 5(a)(vi) hereof, the elements of the Executive's compensation that will be used for purposes of calculating the Executive's pension under the Supplemental Plan shall be determined in accordance with the provisions of such plan.

4. TERMINATION OF EMPLOYMENT. (a) DEATH OR DISABILITY. The Company shall be entitled to terminate the Executive's employment because of the Executive's Disability during the Term. "Disability" means that the Executive is disabled within the meaning of the Company's long-term disability

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policy (such that, if the Company maintains a long-term disability policy, the Executive's employment may only be terminated for Disability under this Agreement if he is eligible for benefits under such policy) or, if there is no such policy in effect, that (i) the Executive has been substantially unable, for 120 business days within a period of 180 consecutive business days, to perform the Executive's duties under this Agreement, as a result of physical or mental illness or injury, and (ii) a physician selected by the Company or its insurers, and acceptable to the Executive or the Executive's legal representative, has determined that the Executive is disabled. A termination of the Executive's employment by the Company for Disability shall be communicated to the Executive by written notice, and shall be effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), unless the Executive returns to full-time performance of the Executive's duties before the Disability Effective Date. The Board may, if it deems such action to be in the best interest of the Company, appoint an individual on a temporary basis during the period prior to the Disability Effective Date to fulfill any duties that the Executive is unable to perform. The Term shall terminate automatically upon the Executive's death.

(b) TERMINATION BY THE COMPANY. The Company may terminate the Executive's employment during the Term for Cause or without Cause.

(i) "Cause" shall mean that prior to the Executive's termination of employment, the Executive shall have (A) engaged in any act of fraud, embezzlement, or theft in connection with his duties as an executive or in the course of employment with the Company or its subsidiaries; (B) wrongfully disclosed any secret process or confidential information of the Company or its subsidiaries; (C) participated without the written consent of the Board in the management of any business enterprise which

manufacturers or sells any product or service competitive with any product or service of the Company or its subsidiaries (other than the mere ownership of less than five (5) percent of the securities in any enterprise and exercise of any ownership rights related thereto); and in any such case the act shall have been determined by the Board to have been materially harmful to the Company; (D) failed in a willful and continued manner to substantially perform his duties with the Company after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or (E) willfully engaged in conduct which is demonstrably and materially injurious to the Company or its subsidiaries, monetarily or otherwise.

(ii) For purposes of Sections 4(b)(i)(D) and (E) hereof, no act, or failure to act, on the Executive's part shall be deemed "willful" unless

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done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company. The Executive may not be terminated for Cause prior to his receipt of a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel, to be heard before the Board) finding that the Executive was guilty of conduct set forth in the definition of Cause herein, and specifying the particulars thereof in detail.

(c) GOOD REASON. (i) The Executive may terminate employment for Good Reason or without Good Reason. "Good Reason" means, without the Executive's written consent, the occurrence of any of the following actions or failures to act, which action or failure to act is not cured within ten business days following the date on which the Executive advises the Company in writing of the occurrence of such action or failure to act (such ten-day period, the "Cure Period"):

- (A) a material and adverse change in the Executive's status, authority, duties or functions;
- (B) except as provided in Section 3(a) hereof, any reduction in the Executive's base salary;
- (C) the failure by the Company to pay the Executive's compensation when due;
- (D) the relocation of the Executive's principal place of employment to a location more than 50 miles from the Executive's principal place of employment; or
- (E) the failure of the Company to obtain from a successor the assumption and agreement to perform this Agreement (as described in Section 10(c) hereof) prior to the effectiveness of any such succession.

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(ii) A termination of employment by the Executive for Good Reason shall be effectuated by giving the Company written notice of the termination, setting forth in reasonable detail the specific conduct of the Company that constitutes Good Reason and the specific provision(s) of this Agreement on which the Executive relies. A termination of employment by the Executive for Good Reason shall be effective on the tenth business day following the end of the Cure Period, unless the notice sets forth a later date (which date shall in no event be later than 30 days following the end of the Cure Period). The failure to set forth any fact or circumstance in such notice of termination shall not constitute a waiver of the right to assert, and shall not preclude the Executive from asserting such fact or circumstance in an attempt to enforce any right under or provision of this Agreement. Any election by the Executive to terminate his employment for Good Reason shall not be deemed a voluntary termination of employment by

the Executive for the purpose of any other employee benefit or other plan.

(iii) A termination of the Executive's employment by the Executive without Good Reason shall be effected by giving the Company 30 days written notice of the termination.

(d) DATE OF TERMINATION. The "Date of Termination" means the date of the Executive's death, the Disability Effective Date or the date on which the termination of the Executive's employment by the Company for Cause or without Cause or by the Executive for Good Reason or without Good Reason is effective.

5. OBLIGATIONS OF THE COMPANY UPON TERMINATION OR NON-RENEWAL.

(a) OTHER THAN FOR CAUSE, DEATH OR DISABILITY, OR FOR GOOD REASON; NON-RENEWAL. If the Company terminates the Executive's employment during the Term for any reason other than Cause, death or Disability, or the Executive terminates his employment for Good Reason, or if the Company provides the Executive with notice, pursuant to Section 1 hereof, that the Term of the Agreement shall not be extended (a "Non-Renewal"), then, subject to the provisions of this Agreement, the Executive shall receive the payments and benefits described in this Section 5(a).

(i) The Company shall pay (A) no later than ten business days following the Date of Termination (the end of the Term in the case of a Non-Renewal), the Executive's full Annual Base Salary to the Executive

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through the Date of Termination (or the end of the Term, as the case may be), without regard to any reduction in Annual Base Salary which constitutes Good Reason, together with all compensation and benefits then payable to the Executive through the Date of Termination (or end of the Term, as the case may be) under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period, subject to the terms of such plans and (B) the Executive's normal post-termination benefits to the Executive as such benefits become due, in accordance with the terms of the relevant plans and agreements (the obligations described in this paragraph (i), the "Accrued Obligations").

(ii) The Company shall pay to the Executive, in a lump sum payment within ten business days following the Date of Termination (or the end of the Term, as the case may be) or, in the discretion of the Company, in substantially equal monthly installments over a period of two years following the Date of Termination (one year following the end of the Term in the case of a Non-Renewal) (such period, the "Severance Period"), a severance payment or payments which, in the aggregate, equal two times (one times in the case of a Non-Renewal) the sum of (i) the Executive's Annual Base Salary in effect immediately prior to the Date of Termination (or end of the Term, as the case may be), without regard to any reduction thereof which constitutes Good Reason plus (ii) the Executive's Target Annual Incentive in effect immediately prior to the Date of Termination (or the end of the Term, as the case may be) (such payments, the "Severance Payments"). Except as provided in Section 5(a)(vi) below, the Severance Payments hereunder shall not be included as compensation for purposes of calculating the Executive's retirement benefits from the Company, and the Severance Period shall not count as service for purposes of any benefit plan or arrangement maintained by the Company.

(iii) Subject to Section 5(a)(ii) hereof, for a two-year period (one year in the case of a Non-Renewal) following the Date of Termination (or end of the Term, as the case may be) (or, if later, in accordance with the existing plans, agreements and arrangements in effect between the Executive and the Company), the Company shall provide the Executive with continued health, disability, life and other insurance benefits substantially similar to the benefits provided during such period to the elected officers of the Company; provided, however, that the level of any continued benefit shall be reduced to the extent that any such benefits are being provided to the Executive by a subsequent employer.

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(iv) Each outstanding Company stock option held by the Executive,

whether or not vested and exercisable, shall become fully vested and exercisable and, in the case of a non-qualified stock option, shall remain outstanding and exercisable for a period of two years (one year in the case of a Non-Renewal) or, if later, the period prescribed by the applicable option agreement (but in no event later than the expiration date of such option).

(v) Each outstanding Share Unit held by the Executive shall become fully vested.

(vi) The Executive shall be credited with two additional Years of Service (one Year of Service in the case of a Non-Renewal), prior to taking into account the application of the Multiplier, for purposes of the Supplemental Plan service formula set forth in Section 3(f) hereof and, if the Executive has not yet attained age 50 as of the Date of Termination (or the end of the Term, as the case may be), the Executive shall be deemed to have attained age 50. The Severance Payments shall be deemed to be eligible compensation for purposes of calculating the Executive's final average pay under the Supplemental Plan, with the Annual Base Salary and Target Annual Incentive elements of such Severance Payments deemed to have been paid over the two-year period (one-year period in the case of a Non-Renewal) following the Date of Termination (or the end of the Term, as the case may be) in accordance with the Company's payment practices, as if the Executive were still employed during such period. The Executive's pension benefit shall be payable no earlier than the later of (A) the second anniversary (the first anniversary in the case of a Non-Renewal) of the Date of Termination (or the end of the Term, as the case may be) or (B) the date that payment of pension benefits to the Executive is to commence pursuant to the terms of the Supplemental Plan, in each case based on the Executive's payment election made under the Supplemental Plan.

(b) DEATH AND DISABILITY. If the Executive's employment is terminated by reason of the Executive's death or Disability during the Term, the Company shall pay to the Executive (or his estate or legal representative, as the case may be) the Accrued Obligations.

(c) BY THE COMPANY FOR CAUSE; BY THE EXECUTIVE OTHER THAN FOR GOOD REASON. If the Executive's employment is terminated by the Company for Cause or the Executive voluntarily terminates employment other than for Good Reason during the Term, (i) the Company shall have no further payment or benefit coverage obligations to the Executive, except that

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the Company shall pay to the Executive the Accrued Obligations and (ii) the Executive shall forfeit the then unvested portions of the Option and the Share Units and all previously vested options and other vested equity awards granted on or after the Effective Date shall be treated according to the provisions of the plan and agreements under which such awards were granted.

(d) NO DUPLICATION. Notwithstanding any other provision hereof, if a termination of the Executive's employment entitles the Executive to severance compensation under the Restated Senior Officer Agreement between the Executive and the Company referred to in Section 11(f) hereof, then the Executive shall not be entitled to any compensation and benefits under this Section 5.

6. NON-EXCLUSIVITY OF RIGHTS. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company for which the Executive may qualify nor shall anything in this Agreement limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company. Vested benefits and other amounts that the Executive is otherwise entitled to receive under any plan, policy, practice or program of, or any contract of agreement with, the Company on or after the Date of Termination shall be payable in accordance with the terms of each such plan, policy, practice, program, contract or agreement, as the case may be, except as explicitly modified by this Agreement.

7. FULL SETTLEMENT. The Company's obligation to make the payments provided for in, and otherwise to perform its obligations under, this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or

take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 5(a)(iii) hereof, such amounts shall not be reduced, regardless of whether the Executive obtains other employment.

8. RESTRICTIVE COVENANTS.

(a) APPLICATION. The Executive shall be subject to the restrictive covenants set forth in Sections 8(b), (c), (d) and (e) hereof (the "Restrictive Covenants") during the Executive's employment and for the respective post-employment period set forth herein. The Restrictive Covenant set forth in Section 8(b) hereof shall apply for a period of (i) two years following the Date of Termination, in the case of a termination of the Executive's employment by the Company for Cause or

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by the Executive without Good Reason, (ii) one year following the Date of Termination, in the case of a termination of the Executive's employment by the Company without Cause or by the Executive for Good Reason or (iii) one year following the end of the Term, in the case of a Non-Renewal (the applicable period of employment and post-employment period, collectively, (the "Restrictive Period")). The Restrictive Covenant set forth in Section 8(c) hereof shall apply for a period of (i) two years following the Date of Termination, in the case of a termination of the Executive's employment for any reason or (ii) two years following the end of the Term, in the case of a Non-Renewal. The Restrictive Covenants set forth in Sections 8(d) and 8(e) hereof shall apply indefinitely. If the Executive violates any of the Restrictive Covenants during the Restrictive Period, then, (i) to the extent that the Executive is entitled to monthly Severance Payments, all such Severance Payments which have not yet been paid shall be immediately forfeited, (ii) any further continuation of benefits (as set forth in Section 5(a)(iii) hereof) shall immediately cease and (iii) in addition to any forfeiture provisions contained in the Supplemental Plan, any pension benefits to be paid under the Supplemental Plan shall be calculated as if Section 5(a)(vi) of this Agreement did not exist.

(b) NON-COMPETITION. The Executive shall not, directly or indirectly, engage, whether as an employee, employer, consultant, advisor or director, or as an owner, investor, partner or stockholder (unless his interest is insubstantial), in any business in an area or region in which the Company or any subsidiary or affiliate then conducts business, which business is directly in competition with a business then conducted by the Company or a subsidiary or affiliate (such business, a "Competitive Business"). For purposes of this Section 8(b), the Executive's interest as a stockholder shall be considered insubstantial if such interest represents beneficial ownership of less than five percent of the outstanding class of stock, and the Executive's interest as an owner, investor or partner shall be considered insubstantial if such interest represents ownership of less than five percent of the outstanding equity of the entity. Notwithstanding the foregoing, the Executive's engaging or participating in a non-Competitive Business (as determined in the discretion of the Company prior to the commencement of such engagement or participation, which determination shall not be unreasonably made) of an entity which also operates a Competitive Business shall not constitute a violation of this Section 8(b).

(c) NON-SOLICITATION. The Executive shall not, directly or indirectly, whether as employee, employer, consultant, advisor or director, or as an owner, investor, partner, stockholder or otherwise, (i) solicit or induce any client or customer of the Company or a subsidiary or affiliate, or entity with which the Company or a subsidiary or affiliate has a business relationship, to curtail, cancel,

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not renew or not continue his or her or its business with the Company or any subsidiary or affiliate, (ii) hire any person who is then, or who within 180 days prior to the Date of Termination was, an employee of, or a consultant or independent contractor to, the Company or a subsidiary or affiliate or (iii) solicit or induce any person who is an employee of, or a consultant or independent contractor to, the Company or a subsidiary or affiliate to curtail, cancel, not renew or not continue his or her or its employment, consulting or other relationship with the Company or any subsidiary or affiliate.

(d) CONFIDENTIALITY. Except pursuant to the performance of the Executive's duties to the Company during his employment with the Company or with the consent of the Company, the Executive shall not take, disclose, use, sell or otherwise transfer any confidential or proprietary information of the Company or any subsidiary or affiliate, including but not limited to information regarding current and potential customers, clients, counterparts, organization, employees, finances and financial results, and methods of operation, transactions and investments, so long as such information has not otherwise been disclosed to the public or is not otherwise in the public domain, except as required by law or pursuant to legal process; and the Executive shall return to the Company, promptly following the Date of Termination, any information, documents, materials, data, manuals, computer programs or device containing information relating to the Company or any subsidiary or affiliate, and each of their customers, clients and counterparts, which came into the Executive's possession or control during his employment.

(e) COOPERATION WITH THE COMPANY. The Executive shall cooperate fully with the Company in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Company or its subsidiaries or affiliates which relate to events or occurrences that transpired while the Executive was employed by the Company. The Executive's full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company and its subsidiaries and affiliates at mutually convenient times. The Company shall reimburse the Executive for any reasonable out-of-pocket expenses incurred in connection with the Executive's performance of obligations pursuant to this Section 8(e). To the maximum extent permitted by law, the Executive agrees that he will notify the Chairman of the Board if the Executive is contacted by any government agency relating to a matter involving the Company, by any other person contemplating or maintaining any claim or legal action against the Company or its subsidiaries and affiliates, or by any agent or attorney of such person.

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(f) ENFORCEABILITY. It is the intention of the parties that the provisions of this Section 8 shall be enforceable to the fullest extent permissible under applicable law, but that if any portion or provision of this Section 8 shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the court may amend such portion or provision so as to comply with law in a manner consistent with the intention of this Agreement.

9. DISPUTE RESOLUTION; ATTORNEYS' FEES. All disputes arising under or related to the employment of the Executive or the provisions of this agreement shall be settled by arbitration under the rules of the American Arbitration Association then in effect, such arbitration to be held in Kenosha, Wisconsin, as the sole and exclusive remedy of either party and judgement on any arbitration award may be entered in any court of competent jurisdiction; provided, however, that the Company may go to court to enforce the provisions of Section 8 hereof. The Company agrees to pay, as incurred, to the fullest extent permitted by law, all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome) by the Company, the Executive or others of the validity or enforceability of or liability under, or otherwise involving, any provision of this Agreement, together with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code; provided, however, that such reimbursement of legal fees and expenses shall be contingent on the Executive having brought or defended such contest in good faith. The Company shall also pay all reasonable legal fees and expenses incurred by the Executive in connection with the preparation and negotiation of this Agreement.

10. SUCCESSORS. (a) This Agreement is personal to the Executive and, without the prior written consent of the Company, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or

substantially all of the business and/or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, the "Company" shall mean both the Company as defined above and any such successor that assumes and agrees to perform this Agreement, by operation

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of law or otherwise.

11. MISCELLANEOUS. (a) This Agreement shall be governed by, and construed in accordance with, the laws of the State of Wisconsin, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

c/o Snap-on Incorporated
10801 Corporate Drive
P. O. Box 1430
Kenosha, WI 53141-1430

If to the Company:

Snap-on Incorporated
10801 Corporate Drive
P. O. Box 1430
Kenosha, WI 53141-1430

Attention: General Counsel

or to such other address as either party furnishes to the other in writing in accordance with this Section 11(b). Notices and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision of this Agreement shall be held invalid or unenforceable in part, the remaining portion of such provision, together with all other provisions of this Agreement, shall remain valid and enforceable and continue in full force and effect to the fullest extent consistent with law.

(d) Notwithstanding any other provision of this Agreement, the

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Company may withhold from amounts payable under this Agreement all federal, state, local and foreign taxes that are required to be withheld by applicable laws or regulations.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provisions of, or to assert, any right under, this Agreement (including, without limitation, the right of the Executive to terminate employment for Good Reason) shall not be deemed to be a waiver of such provision or right or of any other provision of or right under this Agreement.

(f) The Executive and the Company acknowledge that, as of the Effective Date, this Agreement supersedes any other agreement between them concerning the subject matter hereof (including but not limited to the letter agreement between the Company and the Executive, dated as of October 27, 2000) and that, following the Effective Date, no such agreement shall be of any further force or effect. As soon as practicable following the execution of this Agreement, the Company and the Executive shall enter into a Restated Senior Officer Agreement and an Indemnification Agreement, each of which shall be

consistent with the form of such agreement entered into by the Company and its current Chief Executive Officer.

(g) The rights and benefits of the Executive under this Agreement may not be anticipated, assigned, alienated or subject to attachment, garnishment, levy, execution or other legal or equitable process except as required by law. Any attempt by the Executive to anticipate, alienate, assign, sell, transfer, pledge, encumber or charge the same shall be void. Payments hereunder shall not be considered assets of the Executive in the event of insolvency or bankruptcy.

(h) This Agreement may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization of its Board, the Company has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

SNAP-ON INCORPORATED

By: /s/ Robert A. Cornog

Title:

/s/ Dale F. Elliott

EXECUTIVE

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Exhibit (12)

SNAP-ON INCORPORATED
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Amounts in millions)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
Net Earnings	\$ 8.9	\$ 45.7	\$ 35.8	\$106.4
Adjustments:				
Income taxes	7.2	26.3	24.1	46.7
Minority interest in earnings of consolidated subsidiaries	.6	.6	1.0	1.2
Cumulative effect	-	-	2.5	(25.4)
Net Earnings as Defined	16.7	72.6	63.4	128.9
Fixed Charges:				
Interest on debt	9.2	10.6	18.1	20.9
Interest element of rentals	1.3	1.3	2.6	2.6
Total Fixed Charges	10.5	11.9	20.7	23.5
Total Adjusted Earnings Available for Payment of Fixed Charges	\$ 27.2	\$ 84.5	\$ 84.1	\$152.4
Ratio of Earnings to Fixed Charges	2.6	7.1	4.1	6.5

For purpose of computing this ratio, "earnings" consists of (a) income from continuing operations before income taxes and adjusted for minority interest, and (b) "fixed charges," which consists of interest on debt and the estimated interest portion of rents.