SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 8-K

## CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

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Date of Report
(Date of earliest
event reported): March 17, 1998

Snap-on Incorporated
(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| Delaware | 1-7724 | 39-0622040 |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

10801 Corporate Drive, Kenosha, Wisconsin 53141-1430
(Address of principal executive offices, including zip code)

(414) 656-5200
(Registrant's telephone number)

Item 5. Other Events.

Snap-on Incorporated, a Delaware corporation (the "Company"), is filing as Exhibit 99 to this Current Report on Form 8-K those portions of its fiscal 1997 Annual Report to Shareholders that the Company will incorporate by reference into and file as Exhibit 13 to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 1998. The Company is doing so for the purpose of having certain precautionary statements intended to qualify for the safe harbor from litigation provided by the Private Securities Litigation Reform Act of 1995, which are contained in the filed materials, on file with the Securities and Exchange Commission.

The relevant portions of the Company's 1997 Annual Report to Shareholders are attached hereto as Exhibit 99 and are incorporated herein by reference.

Item 7. Financial Statements and Exhibits.

(c) Exhibits.

| Exhibit No. | Description |
|---|---|
| 23 | Consent of Arthur Andersen LLP |
| 99 | Portions of the Snap-on Incorporated 1997 Annual Report to Shareholders |

SIGNATURES

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

SNAP-ON INCORPORATED

Date: March 17, 1998

By: /s/ Neil T. Smith
Neil T. Smith
Controller

EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 23 | Consent of Arthur Andersen LLP |
| 99 | Portions of the Snap-on Incorporated 1997 Annual Report to Shareholders |

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included (or incorporated by reference) in this Form 8-K, into the Corporation's previously filed Registration Statement File Nos. 2-53663, 2-53578, 33-7471, 33-22417, 33-37924, 33-39660, 33-57898, 33-55607, 33-58939, 33-58943, 333-14769, 333-21277, 333-21285 and 333-41359.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Chicago, Illinois
March 17, 1998

Exhibit 99

# Snap-on Incorporated
# 1997 Annual Report

## Financial Review

## Management's Discussion and Analysis of Results of Operations and Financial Condition

### Results of Operations

Overview: Net sales in 1997 increased 12.6%. Contributing to the growth were acquisitions, higher unit volume, a shift in product mix in North America to equipment (which is typically a higher price point category than tools), and modest price increases. The translation of foreign-currency-denominated results into U.S. dollars negatively affected sales by two percentage points. Excluding the results of acquisitions completed in 1997, sales rose 7%. All three geographic segments reported higher sales in 1997. In 1996, net sales rose 14.9%, with increases recorded in North America and Europe, and lower sales posted in the Other segment. Sales excluding acquisitions grew 5% in 1996.

Net earnings increased 14.4% in 1997 and 16.0% in 1996. In both years, the increase was the result of higher sales and continued improvement in operating expenses as a percent of sales. Earnings per share - basic increased 14.4% in 1997 and 17.4% in 1996. Earnings per share - diluted rose 14.6% in 1997 and 16.4% in 1996. In 1996, earnings per share grew at a higher rate than net earnings because of share repurchase programs that reduced the number of common shares outstanding.

Operating profit before net finance income rose 23.9% in 1997 to $193.6 million, compared with a 24.5% increase in 1996. Since 1992, profits from these manufacturing, marketing and distribution operations have increased at a 30.1% compounded average growth rate. Net finance income rose 11.9% in 1997 to $71.9 million, compared with growth of 1.7% in 1996. A further discussion of the Corporation's financing activities begins at the end of this page.

| (Amounts in thousands) except per share data) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Sales | $1,672,215 | $1,485,279 | $1,292,125 |
| Net earnings | 150,366 | 131,451 | 113,330 |
| Earnings per common share - basic | $ 2.47 | $ 2.16 | $ 1.84 |
| Earnings per common share - diluted | $ 2.44 | $ 2.13 | $ 1.83 |

The 1997 year contained 53 weeks; 1996 and 1995 were 52-week years.

Sales: In 1997, net sales in North America rose 15.8%; 1996's sales increased 10.5%. Continued strength in the dealer organization; several large emissions programs; the introduction of over 265 new products including tool storage units, power tools, air conditioning service equipment, software, and new wheel alignment technology; growth in the Equipment Solutions equipment facilitation and distribution business; acquisitions; and price increases all contributed to the 1997 growth. In 1996, increased sales were the result of higher sales to the dealer channel and national accounts, acquisitions, new product introductions, price increases and a moderately strong U.S. economy. Acquisitions contributing to 1997's higher sales were Mitchell Repair Information Company LLC ("MRIC"), Computer Aided Services, Inc. ("CAS"), and Nu-Tech Industries, Inc., more commonly referred to as Brewco Collision Repair Systems ("Brewco"). The acquisition of the business operations of the John Bean Company ("John Bean") added to the sales growth in 1997 and 1996. Base business sales in 1997 were 10% higher, after a gain of 5% in 1996.

Net sales in Europe advanced 2.1% for the 1997 year, following an increase of 46.7% in 1996. The translation of European currencies into U.S. dollars and a sluggish economy in many of the countries in the segment slowed the growth rate in 1997, while the acquisitions of Service Equipment France, S.A. and JPL Services, S.A. ("SEF/JPL") and Texo S.r.l. ("Texo") in 1997, and the 1996 acquisition of John Bean, contributed to net sales. Excluding the translation effects of foreign currency, 1997 sales rose 9%, with acquisitions accounting for almost six percentage points of the gain. Sales of both tools and equipment increased in 1997. The 1996 year benefited from contributions from the 1995 acquisition of Herramientas Eurotools, S.A. of Spain ("Eurotools") and the 1996 acquisition of John Bean, higher sales through the dealer channel, and equipment sales related to the start-up of an emissions-testing program in the United Kingdom. The translation of foreign currencies into U.S. dollars negatively affected sales by three percentage points. Excluding acquisitions, sales increased 8% in 1996.

Net sales in the Other segment increased 2.5% in 1997 after a decline of 1.1% in 1996. The 1997 sales advanced despite difficulties presented by many of the economies in the Asia/Pacific region. Excluding the effects of foreign currency translation, sales were 11% higher, with the 1996 acquisition of Snap-on Tools/PST Africa (Pty.), Ltd. contributing one percentage point to the increase. Both tool and equipment sales in the segment rose for the year. In 1996, growth in tool and equipment sales in Australia was more than offset by a decline in sales in Japan. The strength of the U.S. dollar against the Japanese yen was primarily responsible for the 1996 decrease. In local currency, 1996 sales increased 5%.

| (Amounts in thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| North America sales | $1,317,440 | $1,138,016 | $1,029,516 |
| Europe sales | 274,353 | 268,818 | 183,301 |
| Other sales | 80,422 | 78,445 | 79,308 |
| Total sales | $1,672,215 | $1,485,279 | $1,292,125 |

The Corporation manufactures, markets and distributes tools, equipment and related services for automotive and industrial service customers around the world using multiple brands sold through multiple channels of distribution. In some instances, it finances the purchase of those products.

The Corporation uses its financing programs to facilitate sales. Net finance income (defined as income from the Corporation's financing programs net of administrative costs) was $71.9 million in 1997, compared with $64.3 million in 1996 and $63.2 million in 1995. The rise in net finance income in 1997 and 1996 was the result of increases in extended credit receivables and benefits from programs to control related costs. In 1996, an increase in lease receivables also contributed to the rise. The growth was offset in part by the asset securitization program discussed in the next paragraph.

The Corporation seeks to reduce the asset intensity of its balance sheet that is the result of its financing activities. During 1997, the Corporation sold $25 million in each of the first three quarters, and $50 million in the fourth quarter, of its extended credit receivables, with the proceeds used to pay down short-term debt and for working capital and general corporate purposes. The effect of the asset securitizations is a decline in net finance income offset by an equivalent decline in interest expense. In 1996, the Corporation sold $75 million of extended credit receivables, and has sold a total of $300 million of such receivables since the program's inception in October of 1995. In the fourth quarter of 1997, the Corporation also sold $74 million of net lease receivables. The effect of this sale on future results is discussed in the "Outlook" section of this Discussion. The sale of all of these extended credit and lease receivables in the aggregate has improved the Corporation's after-tax return on net assets by 330 basis points over the last two years.

Sales per employee, a common measure of productivity, increased 4.9% in 1997 over 1996. Since 1992, sales per employee has grown an average of 6.3% per year.

During the year, the Corporation increased prices by varying degrees in many of its product groups. List price increases averaged 2.9% in both 1997 and 1996. Promotional activities reduced the revenue realization of these price increases to approximately 1%.

Operating Profit Before
Net Finance Income
(in $ millions)

(CHART)

Sales per Employee
in $ thousands

(CHART)

| | | | |
|---|---|---|---|
| 93 | 86 | 93 | 125 |
| 94 | 98 | 94 | 129 |
| 95 | 125 | 95 | 137 |
| 96 | 156 | 96 | 142 |
| 97 | 194 | 97 | 149 |

Cost and profit margins: The gross profit margin was 50.5% in both 1997 and 1996, compared with 51.3% in 1995. The decline in 1996's gross margin was due to a change in business mix resulting from several acquisitions.

Total operating expenses as a percent of net sales continued to decline. The 1997 percentage was 38.9% compared with 40.0% in 1996 and 41.6% in 1995. Continued improvement in processes and in productivity and a change in business mix contributed to the declines in both years. Total operating expenses were $55.7 million higher in 1997, compared with increases of $56.5 million in 1996 and $27.7 million in 1995. All years' increases were primarily due to acquisitions.

The operating income margin improved to 15.9% in 1997 from 14.8% in 1996 and 14.6% in 1995. The 1997 increase was the result of a reduction in operating expenses as a percent of sales. In 1996, lower operating expenses as a percent of sales more than offset the lower gross margin.

| Research & Development in $ millions (CHART) | | Operating Expenses as a Percent of Net Sales (CHART) | |
|---|---|---|---|
| 93 | 28 | 93 | 45.0 |
| 94 | 31 | 94 | 42.7 |
| 95 | 34 | 95 | 41.6 |
| 96 | 42 | 96 | 40.0 |
| 97 | 47 | 97 | 38.9 |

| Margin Analysis (CHART) | Net Sales (in $ millions) | Gross Profit Margin | Operating Income Margin |
|---|---|---|---|
| 93 | 1,132 | 532.6% | 13.0% |
| 94 | 1,194 | 51.0% | 13.3% |
| 95 | 1,292 | 51.3% | 14.6% |
| 96 | 1,485 | 50.5% | 14.8% |
| 97 | 1,672 | 50.5% | 15.9% |

In 1997, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and SFAS No. 128, "Earnings per Share." The adoption of these standards did not have a material impact on the consolidated financial statements.

Other income and expenses: Interest expense recorded in 1997 was $17.7 million, compared with $12.6 million in 1996 and $13.3 million in 1995. The 1997 increase was due to higher average levels of debt outstanding. The decrease in 1996 was primarily due to the effects of the asset securitization program. The increase in Other Expense in 1997 was primarily because of the deduction of minority interest income in connection with the Corporation's 50% ownership of MRIC, and an increase in the loss from foreign currency transactions.

Foreign currency: The Corporation operates in a number of countries and, as a result, is exposed to changes in exchange rates. Most of these exposures are managed on a consolidated basis to take advantage of natural offsets through netting. To the extent that the net exposures are hedged, forward contracts are used. Refer to Note 7 for a discussion of the Corporation's accounting policies for the use of derivative instruments.

| (Amounts in thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Interest expense | $(17,654) | $(12,649) | $(13,327) |
| Interest income | 1,163 | 2,134 | 3,222 |
| Other income (expense) | (10,370) | (1,358) | 1,350 |
| Total other expense | $(26,861) | $(11,873) | $ (8,755) |

Income taxes: The Corporation's effective tax rate was 37.0% in 1997, 1996 and 1995. For additional information about the Corporation's tax position and activities, see Note 6.

Other matters: During 1997, the Corporation acquired full or partial ownership of six new business operations for an aggregate purchase price of $62.9 million. These operations are a 50% interest in The Thomson Corporation's Mitchell Repair Information business, a 70% interest in Texo, and 100% interest in SEF/JPL, CAS, Brewco and the Hofmann Werkstatt-Technik GmbH ("Hofmann") business operations.

MRIC is a major provider of print and electronic versions of vehicle mechanical and electrical system repair information to repair and service establishments throughout North America. The acquisition enables the Corporation to offer a complete package of integrated information and business services to vehicle repair centers around the world. The integration of the vehicle repair database into the Corporation's diagnostics equipment is also an important benefit of the relationship. Snap-on will purchase the remainder of MRIC within the next four years.

SEF, which was merged with Snap-on Equipment France, is a distributor of automotive service and repair equipment in France. Its subsidiary, JPL, is a French provider of service and repair for equipment products.

CAS is a developer of repair shop management systems, point-of- sale systems and diagnostics equipment sold in the United States.

Texo is an Italian manufacturer of lifts for motor vehicles including automobiles, heavy-duty trucks and motorcycles. It sells its products primarily in Europe, with a growing presence in other regions of the world.

Brewco is a U.S. manufacturer and marketer of frame-straightening and other collision repair equipment with leading technology, providing the Corporation with an entry into this large, important industry.

Hofmann is a German-based leading producer of under-car equipment including wheel balancers, lifts, tire changers and aligners. Hofmann's product line has minimal overlap with Snap-on's current product and geographic footprint. Its products are sold in Europe, North America and the Asia/Pacific region.

Subsequent to the end of 1997, there was a settlement of litigation related to the 1995 termination of an emissions-testing program and related contracts in the State of Texas. As a result, the obligation under a guaranty previously recorded by the Corporation in Other Long-term Liabilities has been satisfied. The Corporation also will be receiving payments toward the remaining receivables previously recorded, which reflect amounts expected to be received under an indemnity. Refer to Note 12 for an expanded discussion of this subject.

The Corporation is conducting a comprehensive review of its products, computer systems and software to identify those that may require modification so that they will function properly in the Year 2000. This review is being conducted through a committee, which has the responsibility to identify, evaluate and implement necessary changes to achieve a Year 2000 date conversion with no disruption to business operations. The committee has communicated with suppliers, dealers, financial institutions and others with whom the Corporation does business, to coordinate the Year 2000 conversion. Conversion efforts are under way, and for a significant portion of the Corporation's internal systems this conversion is an incidental consequence of the ongoing implementation of a new enterprise-wide client/server computing system in North America. However, some internal testing and conversion is required at other geographic locations. Based upon its review and analysis to date, the Corporation believes that the Year 2000 conversion will not have a material effect on the Corporation's financial position or results of operations.

Stock repurchase program: At its June 1997 meeting, the board of directors authorized the repurchase of up to $100 million of the Corporation's common stock. At the end of 1997, substantially all of the authorization remained available. In addition, an authorization by the board of directors is currently in effect to repurchase common shares of the Corporation in an amount equivalent to the number of shares issued in connection with the exercise of options, employee and dealer stock purchase programs, and other similar issuances. The intent of this authorization is to prevent dilution of shareholders' interests. In 1997, 986,333 shares of the Corporation's common stock were repurchased, following the buyback of 615,750 shares in 1996.

## Financial Condition

Overview: The Corporation continued its commitment to a strong financial position and solid capital structure in 1997. At the end of 1997, the ratio of total debt to total capital declined to 16.4% from 17.3% as of year-end 1996, reflecting strong cash flow from the sale of extended credit and lease receivables that enabled the Corporation to invest in its businesses and satisfy its obligations without increasing its total debt.

Return on Net Assets Employed Before Interest and Taxes
in percent
(CHART)

| | |
|---|---|
| 93 | 18.6 |
| 94 | 18.7 |
| 95 | 21.1 |
| 96 | 24.4 |
| 97 | 25.1 |

Total Debt to Total Capital
in percent
(CHART)

| | |
|---|---|
| 93 | 19.3 |
| 94 | 13.5 |
| 95 | 18.5 |
| 96 | 17.3 |
| 97 | 16.4 |

Liquidity: In 1997, the Corporation's working capital decreased by $6.8 million following an increase of $65.3 million in 1996. The sale of extended credit and lease receivables during 1997 more than offset the negative effects of several other components of working capital, primarily inventories. Acquisitions accounted for most of the increase in 1996. The ratio of current assets to current liabilities was 2.9 to 1 at the end of 1997, compared with 3.0 to 1 at the end of 1996. Cash and cash equivalents were $25.7 million at the end of 1997, an increase of $10.3 million from year-end 1996's $15.4 million.

Accounts receivable decreased $112.1 million to $539.6 million. The decline in accounts receivable was the result of the extended credit receivables securitization program discussed previously and in Note 4. Exclusive of the asset securitization effected in 1997, receivables increased by $86.9 million, reflecting acquisitions and continued strong growth in extended credit installment contracts and lease originations generated by the Corporation. At the end of 1997, these financing instruments represented approximately one-third of the Corporation's accounts receivable. The majority of accounts receivable at the end of 1997 included those from dealers, industrial customers and governments. The percentage of total write-offs for bad debts represented 2.0% of average accounts receivable in 1997, an increase from 1.5% in 1996, reflecting a more difficult environment for credit collections. The Corporation's ratio, however, remains significantly below that of the credit industry.

Inventories increased by $103.4 million to $373.2 million, primarily because of acquisitions, the need to build the majority of emissions-testing equipment well in advance of its sale, and higher-than-planned inventory of product purchased from outside sources. Excluding acquisitions, inventories were $78.7 million higher at the end of 1997 than the $269.8 million reported at the close of 1996.

| (Amounts in thousands) | 1997 | 1996 |
|---|---|---|
| Current assets | $1,021,709 | $1,017,324 |
| Current liabilities | 352,530 | 341,371 |
| Working capital | $ 669,179 | $ 675,953 |
| Current ratio | 2.9 to 1 | 3.0 to 1 |

Short-term debt at the end of 1997 was $24.0 million, a slight increase over the $23.3 million at the 1996 year-end. Current maturities of long-term debt at the end of 1997 and 1996 were $0.4 million and $0.3 million, respectively. In addition, at year-end 1997, the Corporation had $51.0 million in short-term commercial notes payable outstanding that were classified as long-term, since it is the Corporation's intent, and it has the ability, to refinance this debt on a long-term basis, supported by its $100 million revolving credit facility. The Corporation has on file a $300 million shelf registration that allows the Corporation to issue from time to time up to $300 million of unsecured indebtedness. Of this amount, $100 million aggregate principal amount of its notes has been issued to the public.

These sources of borrowing, coupled with cash from operations, are sufficient to support working capital requirements, finance capital expenditures, make acquisitions, repurchase common stock and pay dividends. The Corporation's high credit rating over the years has ensured that external funds are available at a reasonable cost. At the end of 1997, the Corporation's long-term debt was rated Aa3 and AA by Moody's Investor Service and Standard & Poor's, respectively. The strength of the Corporation's balance sheet provides the financial flexibility to respond to both internal growth opportunities and those existing through acquisition.

| Cash Flow* in $ millions (CHART) | | Capital Expenditures in $ millions (CHART) | |
|---|---|---|---|
| 93 | 118 | 93 | 33 |
| 94 | 128 | 94 | 42 |
| 95 | 145 | 95 | 32 |
| 96 | 163 | 96 | 52 |
| 97 | 189 | 97 | 55 |

*Net income plus depreciation and amortization

Capital expenditures/Depreciation and amortization: Capital expenditures for 1997 totaled $55.4 million, an increase of $3.1 million over 1996. Investments for the year included the upgrade and integration of the Corporation's computer systems, and the normal addition, replacement and upgrade of manufacturing and distribution facilities and equipment. The Corporation anticipates that capital expenditures in 1998 will total $45 million to $50 million.

Depreciation for 1997 was $29.7 million, up $3.1 million from 1996. The growth was driven by increased capital spending in 1996 and by acquisitions. Amortization expense in 1997 was $8.7 million, an increase of $3.5 million from 1996. Acquisitions accounted for the higher expense.

| (Amounts in thousands) | 1997 | 1996 |
|---|---|---|
| Capital expenditures | $55,442 | $52,333 |
| Depreciation | 29,724 | 26,644 |
| Amortization | 8,653 | 5,235 |

Dividends: At its June 1997 meeting, the board of directors declared a 5.0% increase in the quarterly dividend on the Corporation's common stock, raising the annual dividend rate to $.84 per share. The Corporation has paid consecutive quarterly dividends since 1939.

| | 1997 | 1996 |
|---|---|---|
| Cash dividends paid (in thousands) | $49,888 | $46,323 |
| Cash dividends per common share | $ .82 | $ .76 |
| Cash dividends as a % of net income | 33.2% | 35.2% |

Outlook: Subsequent to the end of 1997, the Corporation announced that it expects increased operating results and strong sales growth in 1998, despite the presently anticipated negative effect of foreign currency. First quarter 1998 earnings per share, however, could be approximately even with the year-ago period.

The primary factors affecting the first quarter include a temporary change in the Corporation's business mix due to its leading participation in several large state emissions programs that are expected to be completed early in 1998. Emissions equipment carries lower margins than the corporate average but provides an important installed base on which future revenues can be generated through software updates, add-on sales and equipment service. Also, the fourth quarter 1997 acquisition of Hofmann is expected to be dilutive in the first quarter. Finally, the Corporation's fourth quarter 1997 sale of a majority of its lease portfolio will have a short-term negative impact on earnings, particularly in the first quarter. This transaction did, however, contribute to the 330-basis-point improvement over the last two years in the Corporation's after-tax return on net assets.

The Corporation's present exposure to economic uncertainty in the Asia/Pacific region is not material to its consolidated results or financial position.

"Safe Harbor": "Forward-looking statements" in this document are statements that are not historical facts, including statements that include the words "believes," "expects," "anticipates," "estimates" or words with similar meanings with reference to the Corporation or management; specifically identified as forward-looking; or describing the Corporation's or management's future plans, objectives or goals. The Corporation or its representatives may also make similar forward-looking statements from time to time orally or in writing. The Corporation cautions the reader that these statements are subject to risks, uncertainties and other factors that could cause (and in some cases have caused) actual results to differ materially from those described in any such statement. Some of those factors are discussed below, as well as elsewhere in this document, and in the Corporation's Securities and Exchange Commission filings. The Corporation operates in a continually changing business environment, and new factors emerge from time to time. The Corporation cannot predict such factors, nor can it assess the impact, if any, of such factors on the Corporation or its results. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The failure of the Corporation to be successful in addressing these factors could cause actual results to differ from those discussed in any forward-looking statement.

The Corporation's ability to meet its performance objectives and to achieve results that may be described in any forward-looking statement is dependent upon both macro-environmental factors and factors related specifically to the Corporation or the industries in which it participates. These include, but are not limited to, the following:

The Corporation's ability to withstand external negative factors including changes in trade, monetary and fiscal policies, laws and regulations, or other activities of governments or their agencies; significant changes in the current competitive environment; inflation; or currency exchange fluctuations;

The degree of the Corporation's success in executing its multiple brands/multiple channels strategy on a global basis and in integrating its acquisitions;

The maintenance of the positive relationship between the Corporation and its franchisees that currently exists;

The Corporation's achievement of a high level of productivity improvements, which could be attained through activities that would include cost savings programs, changes in the composition of the work force, and realization of synergies related to both its base business and acquisitions;

The continuation of good relations with the Corporation's employees;

The implementation of government-mandated, emissions-testing programs in those U.S. states, especially California and New York, which would provide a return on the prior investment that was necessary in order for the Corporation to participate in such programs; and

The Corporation's ability to manufacture, distribute and/or record the sale of products during the implementation of a new computer system involving the replacement of hardware and software components and the enterprise-wide linking of all functions.

Consolidated Statements of Earnings

| (Amounts in thousands except share data) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Net sales | $1,672,215 | $1,485,279 | $1,292,125 |
| Cost of goods sold | 828,387 | 734,495 | 628,634 |
| Gross profit | 843,828 | 750,784 | 663,491 |
| Operating expenses | 650,182 | 594,527 | 538,021 |
| Operating profit before net finance income | 193,646 | 156,257 | 125,470 |
| Net finance income | 71,891 | 64,269 | 63,174 |
| Operating income | 265,537 | 220,526 | 188,644 |
| Interest expense | (17,654) | (12,649) | (13,327) |
| Other income (expense) - net | (9,207) | 776 | 4,572 |
| Earnings before income taxes | 238,676 | 208,653 | 179,889 |
| Income taxes | 88,310 | 77,202 | 66,559 |

| | | | |
|---|---|---|---|
| Net earnings | $ 150,366 | $ 131,451 | $ 113,330 |
| | ========== | ========== | ========== |
| Earnings per weighted average common share - basic | $ 2.47 | $ 2.16 | $ 1.84 |
| Earnings per weighted average common share - diluted | $ 2.44 | $ 2.13 | $ 1.83 |
| | ---------- | ---------- | ---------- |
| Weighted average common shares outstanding - basic | 60,845,467 | 60,967,865 | 61,510,500 |
| Common stock equivalents | 840,841 | 624,947 | 394,473 |
| | ---------- | ---------- | ---------- |
| Weighted average common shares outstanding - diluted | 61,686,308 | 61,592,812 | 61,904,973 |
| | ---------- | ---------- | ---------- |

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

| (Amounts in thousands except share data) | Jan. 3, 1998 | Dec. 28, 1996 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $ 25,679 | $ 15,350 |
| Accounts receivable, less allowance for doubtful accounts of $20.6 million in 1997 and $16.9 million in 1996 | 539,589 | 651,739 |
| Inventories | 373,155 | 269,750 |
| Prepaid expenses and other assets | 83,286 | 80,485 |
| | ---------- | ---------- |
| Total current assets | 1,021,709 | 1,017,324 |
| Property and equipment - net | 265,765 | 245,294 |
| Deferred income tax benefits | 55,699 | 55,413 |
| Intangible and other assets | 298,184 | 202,757 |
| | ---------- | ---------- |
| Total assets | $1,641,357 | $1,520,788 |
| | ========== | ========== |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Accounts payable | $ 91,553 | $ 89,310 |
| Notes payable and current maturities of long-term debt | 23,951 | 23,274 |
| Accrued compensation | 43,712 | 36,467 |
| Dealer deposits | 43,848 | 51,036 |
| Accrued income taxes | 14,831 | 11,366 |
| Deferred subscription revenue | 29,265 | - |
| Other accrued liabilities | 105,370 | 129,918 |
| | ---------- | ---------- |
| Total current liabilities | 352,530 | 341,371 |
| Long-term debt | 151,016 | 149,804 |
| Deferred income taxes | 11,824 | 7,027 |
| Retiree health care benefits | 86,936 | 84,593 |
| Pension and other long-term liabilities | 146,914 | 109,832 |
| | ---------- | ---------- |
| Total liabilities | 749,220 | 692,627 |
| 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 66,472,127 and 65,971,917 shares | 66,472 | 65,972 |
| Additional paid-in capital | 82,758 | 66,506 |
| Retained earnings | 938,963 | 838,484 |
| Foreign currency translation adjustment | (30,385) | (13,930) |
| Treasury stock at cost - 5,956,313 and 5,186,550 shares | (165,671) | (128,871) |
| | ---------- | ---------- |
| Total shareholders' equity | 892,137 | 828,161 |
| | ---------- | ---------- |
| Total liabilities and shareholders' | | |

| | | |
|---|---|---|
| equity | $1,641,357 | $1,520,788 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

| (Amounts in thousands except share data) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Common stock | | | |
| Amount at beginning of year | $ 65,972 | $ 43,571 | $ 43,128 |
| Shares issued under stock purchase and option plans | 480 | 410 | 425 |
| Three-for-two stock split | - | 21,971 | - |
| Dividend reinvestment plan | 20 | 20 | 18 |
| Amount at end of year | 66,472 | 65,972 | 43,571 |
| Additional paid-in capital | | | |
| Amount at beginning of year | 66,506 | 74,250 | 61,827 |
| Additions from stock purchase and option plans | 10,940 | 12,436 | 11,778 |
| Tax benefit from certain stock options and other items | 2,128 | 1,031 | - |
| Treasury reissuances | 2,380 | - | - |
| Three-for-two stock split | - | (21,971) | - |
| Dividend reinvestment plan | 804 | 760 | 645 |
| Amount at end of year | 82,758 | 66,506 | 74,250 |
| Retained earnings | | | |
| Amount at beginning of year | 838,484 | 753,356 | 684,139 |
| Net earnings for the year | 150,366 | 131,451 | 113,330 |
| Dividends per share paid in cash - $.82 in 1997, $.76 in 1996 and $.72 in 1995 | (49,887) | (46,323) | (44,113) |
| Amount at end of year | 938,963 | 838,484 | 753,356 |
| Foreign currency translation adjustment | | | |
| Amount at beginning of year | (13,930) | (10,758) | (13,384) |
| Net currency translation adjustment for the year | (16,455) | (3,172) | 2,626 |
| Amount at end of year | (30,385) | (13,930) | (10,758) |
| Treasury stock at cost | | | |
| Amount at beginning of year | (128,871) | (109,687) | (9,312) |
| Treasury stock reissued | 5,524 | - | - |
| Treasury stock purchased | (42,324) | (19,184) | (100,375) |
| Amount at end of year | (165,671) | (128,871) | (109,687) |
| Total shareholders' equity | $892,137 | $828,161 | $750,732 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

| (Amounts in thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Operating activities | | | |
| Net earnings | $150,366 | $131,451 | $113,330 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation | 29,724 | 26,644 | 25,503 |
| Amortization of intangibles | 8,653 | 5,235 | 6,031 |
| Deferred income tax provision | 11,814 | 8,398 | (10,098) |
| (Gain) loss on sale of assets | 114 | (876) | (236) |

| | | | |
|---|---|---|---|
| Changes in operating assets and liabilities, net of effects of acquisitions: | | | |
| (Increase) decrease in receivables | 133,171 | (29,591) | (18,267) |
| (Increase) in inventories | (87,502) | (10,543) | (121) |
| (Increase) decrease in prepaid expenses | (770) | 3,361 | (3,989) |
| (Increase) decrease in other noncurrent assets | (19,129) | 6,679 | (7,627) |
| Increase (decrease) in accounts payable | (16,562) | 12,069 | 10,786 |
| Increase (decrease) in accruals, deposits and other long-term liabilities | (14,985) | (16,427) | 49,961 |
| Net cash provided by operating activities | 194,894 | 136,400 | 165,273 |
| Investing activities | | | |
| Capital expenditures | (55,442) | (52,333) | (31,581) |
| Acquisitions of businesses | (62,947) | (38,553) | (37,965) |
| Disposal of property and equipment | 2,159 | 3,317 | 5,961 |
| Net cash used in investing activities | (116,230) | (87,569) | (63,585) |
| Financing activities | | | |
| Payment of long-term debt | (7,802) | (9,902) | (150) |
| Increase in long-term debt | - | 3,205 | 100,013 |
| Increase (decrease) in short-term borrowings - net | 10,579 | 7,888 | (62,391) |
| Purchase of treasury stock - net | (36,800) | (19,184) | (100,375) |
| Proceeds from stock purchase and option plans | 16,752 | 14,656 | 12,866 |
| Cash dividends paid | (49,888) | (46,323) | (44,113) |
| Net cash used in financing activities | (67,159) | (49,660) | (94,150) |
| Effect of exchange rate changes on cash | (1,176) | (32) | (342) |
| Increase (decrease) in cash and cash equivalents | 10,329 | (861) | 7,196 |
| Cash and cash equivalents at beginning of year | 15,350 | 16,211 | 9,015 |
| Cash and cash equivalents at end of year | $ 25,679 | $ 15,350 | $ 16,211 |

The accompanying notes are an integral part of these statements.

## Notes to Consolidated Financial Statements

### Note 1 - Summary of Accounting Policies

A summary of significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

a. Nature of operations: The Corporation is a leading global developer, manufacturer and distributor of hand tools, power tools, tool storage products, shop equipment, under-hood diagnostics equipment, under-car equipment, emissions and safety equipment, collision repair equipment, vehicle service information, and business management systems and services. The Corporation's customers include professional automotive technicians, shop owners, franchised service centers, national accounts, original equipment manufacturers, and industrial tool and equipment users worldwide.

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

c. Principles of consolidation: The consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which are wholly owned with the exception of Mitchell Repair Information Company ("MRIC"), Edge Diagnostic Systems, Texo S.r.l., and Snap-on Tools/PST Africa (Pty) Ltd. Significant intercompany accounts and transactions have been eliminated.

d. Accounting period: The Corporation's accounting period ends on the Saturday nearest December 31. The 1997, 1996 and 1995 years ended on January 3, 1998, December 28, 1996 and December 30, 1995. The 1997 year contained 53 weeks; 1996 and 1995 were 52-week years.

e. Cash equivalents: The Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

f. Inventories: Inventories, consisting of manufactured products and merchandise for resale, are stated at the lower of cost or market. Inventories accounted for using the last-in, first-out (LIFO) method approximated 65% and 73% of total inventory as of year-end 1997 and 1996. Remaining inventories are generally determined using the first-in, first-out (FIFO) cost method. For detailed inventory information, refer to Note 2.

g. Property and equipment: Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization

are provided on a straight-line basis over estimated useful lives. Accelerated depreciation methods are used for income tax purposes. Capitalized software included in property and equipment reflects costs related to internally developed or purchased software for internal use that are capitalized and amortized on a straight-line basis over periods not exceeding seven years. For detailed property and equipment information, refer to Note 3.

h. Intangibles: During 1997, the Corporation made six acquisitions with an aggregate purchase price of $62.9 million. During 1996, the Corporation made three acquisitions with an aggregate purchase price of $38.6 million. Pro forma results of operations are not presented, as the effect of these acquisitions is not material. Goodwill arising from business acquisitions is included in Intangible and Other Assets in the accompanying consolidated balance sheets and is being amortized principally over 20 years on a straight-line basis. The Corporation continually evaluates the existence of goodwill impairment on the basis of whether the goodwill is fully recoverable from projected, undiscounted net cash flows of the related business unit. Should an impairment be identified, the loss would be measured as the difference between the current fair value of the asset and the carrying value.

In the first quarter of 1997, the Corporation acquired a 50% interest in The Thomson Corporation's Mitchell Repair Information business at a purchase price of $40.2 million. The Corporation is obligated to purchase the remainder of this business within the next four years.

Goodwill, net of accumulated amortization, was $121.3 million and $80.8 million at the end of 1997 and 1996. Goodwill amortization was $6.9 million, $4.8 million and $3.9 million for 1997, 1996 and 1995. Accumulated amortization of goodwill was $25.0 million and $18.1 million at the end of 1997 and 1996.

i. Research and engineering: Research and engineering costs are charged to expense in the year incurred. For 1997, 1996 and 1995, these costs were $46.5 million, $42.4 million and $33.9 million.

j. Income taxes: Deferred income taxes are provided for temporary differences arising from differences in the bases of assets and liabilities for tax and financial reporting purposes. Deferred income taxes are recorded on temporary differences at the tax rate expected to be in effect when the temporary differences reverse. For detailed tax information, refer to Note 6.

k. Foreign currency translation: The financial statements of the Corporation's foreign subsidiaries are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation." Net assets of certain foreign subsidiaries are translated at current rates of exchange, and income and expense items are translated at the average exchange rate for the year. The resulting translation adjustments are recorded directly into a separate component of shareholders' equity. Certain other translation adjustments and transaction gains and losses are reported in net income and were not material in any year.

l. Revenue recognition: The Corporation recognizes revenues at the time that products are shipped or the time that services are performed. Franchise fee revenue is recognized as the fees are earned. Revenue from franchise fees was not material in any year. Subscription revenue is recognized over the life of the subscription. The total amount of subscription revenue was not material in any year.

m. Net finance income: Net finance income consists of installment contract income, dealer start-up loan receivable income and lease income, all net of related administrative expenses.

n. Advertising and promotion expense: Production costs of future media advertising are deferred until the advertising occurs. All other advertising and promotion costs are generally expensed when incurred.

o. Warranty expense policy: The Corporation provides product warranties for specific product lines and accrues for estimated future warranty costs in the period that the sale was recorded.

p. Accounting standards: In 1997, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and SFAS No. 128, "Earnings per Share." The adoption of these standards had no material impact on the consolidated financial statements.

q. Reclassified prior-year amounts: Certain prior-year amounts have been reclassified to conform with current-year presentation.

r. Per share data: In June of 1996, the board of directors approved a three-for-two split of the Corporation's common stock, which was distributed on September 10, 1996, to shareholders of record on August 20, 1996. All prior-year per-share and weighted average share information has been retroactively restated.

Note 2 - Inventories

The components of the Corporation's inventory were as follows:

| (Amounts in thousands) | 1997 | 1996 |
|---|---|---|
| Finished stock | $ 366,324 | $ 271,785 |
| Work in process | 42,384 | 42,483 |
| Raw materials | 66,008 | 62,057 |
| Excess of current cost over LIFO cost | (101,561) | (106,575) |
| Total inventory | $ 373,155 | $ 269,750 |

Note 3 - Property and Equipment

The Corporation's property and equipment values, which are carried at cost, were as follows:

| (Amounts in thousands) | 1997 | 1996 |
|---|---|---|
| Land | $ 23,980 | $ 24,337 |
| Buildings and improvements | 163,596 | 166,764 |
| Machinery and equipment | 341,875 | 319,138 |
| | 529,451 | 510,239 |
| Less: accumulated depreciation | (263,686) | (264,945) |
| Property and equipment - net | $ 265,765 | $ 245,294 |

The estimated service lives of property and equipment are principally as follows:

| | |
|---|---|
| Buildings and improvements | 5 to 50 years |
| Machinery and equipment | 3 to 15 years |
| Computer software | 3 to 7 years |
| Transportation vehicles | 2 to 5 years |

Note 4 - Receivables

Accounts receivable include installment receivable amounts that are due beyond one year from balance sheet dates. These amounts were approximately $15.6 million and $47.6 million at the end of 1997 and 1996. Gross installment receivables amounted to $174.0 million and $422.2 million at the end of 1997 and 1996. Of these amounts, $14.6 million and $42.4 million represented unearned finance charges at the end of 1997 and 1996.

In 1997, the Corporation created CreditCorp SPC, LLC ("CreditCorp"), a bankruptcy remote, special purpose entity, the sole purpose of which is to sell to various financial institutions dealer loan receivables, extended credit customer accounts receivable and equipment lease receivables. These receivables are secured by the underlying inventory, tools or equipment financed. CreditCorp is a separate corporate entity with its own separate creditors that will be entitled to be satisfied out of its assets prior to the distribution of any value to its shareholders.

CreditCorp has an agreement with a financial institution to sell, on an ongoing basis and with full recourse to the Corporation, up to $77.0 million of secured dealer loan receivables. These receivables are created through the financing of franchise dealer operations. During 1997 and 1996, the Corporation sold $31.5 million and $31.6 million of these receivables to the financial institution. At the end of 1997 and 1996, $67.4 million and $56.5 million remained outstanding.

CreditCorp has also entered into a facility that provides for the sale, with limited recourse, of an undivided interest in a pool of secured extended credit customer accounts receivable to a third-party financial institution. As of January 3, 1998, $300.0 million of interest-bearing installment receivables were sold under this facility on a revolving basis. As of December 28, 1996, $175.0 million of receivables were sold under this facility. The agreement for revolving purchases terminates in October 1998.

In December 1997, CreditCorp sold, with limited recourse, $73.7 million of equipment lease receivables to a third-party financial institution.

Generally, the recourse provisions for the above securitizations require the Corporation to provide for the deficiency, if any, that results from the repossession and subsequent sale of collateral in a default situation. The Corporation maintains credit reserves, pursuant to these recourse provisions which are based on the Corporation's best estimates of probable losses under such provisions. The reserves were not material as of January 3, 1998, and December 28, 1996. The Corporation does not receive collateral from any party to the securitizations, nor does the Corporation have any risk of counterparty non-performance.

In December 1996, the Corporation made the determination to sell on an ongoing basis equipment lease receivable originations to a third-party financial institution. During 1997, the Corporation sold, with no recourse, $50.9 million of these lease receivables.

All transactions are reflected as sales of accounts receivable in the accompanying Consolidated Balance Sheets and as increases to operating cash flows in the accompanying Consolidated Statements of Cash Flows. The impact of these sales on the Consolidated Statements of Earnings was not material.

Note 5 - Short-term and Long-term Debt

Notes payable to banks under bank lines of credit totaled $23.6 million and $22.9 million at the end of 1997 and 1996.

Commercial notes payable totaled $51.0 million and $42.0 million at the end of 1997 and 1996. The commercial paper outstanding at year-end is classified as long-term debt, since it is the Corporation's intent and it has the ability (supported by a $100 million revolving credit facility) to refinance the debt on a long-term basis.

Under the terms of a $100 million revolving credit commitment entered into by the Corporation in 1997, borrowings can be made at the London Interbank Offered Rate in effect at the time of such borrowings plus .095% and may be fixed for periods ranging from one to 12 months under reborrowing provisions of the commitment. Under the commitment, the Corporation must also maintain a specific level of consolidated tangible net worth and meet certain leverage and subsidiary indebtedness ratios. In addition, certain capital transactions are restricted. At the end of 1997, the Corporation was in compliance with all covenants of the commitment. This commitment terminates on September 5, 2002. There were no borrowings under this revolving credit commitment as of January 3, 1998 and December 28, 1996.

Maximum short-term debt outstanding at the end of any month was $177.4 million in 1997 and $64.9 million in 1996. The average short-term debt outstanding was $117.6 million in 1997 and $41.9 million in 1996. The weighted average interest rates on short-term debt were 5.5% in 1997 and 6.0% in 1996. The weighted average interest rates on long-term and short-term debt outstanding at January 3, 1998 and December 28, 1996 were 6.3% and 6.4%.

The Corporation's long-term debt consisted of the following:

| (Amounts in thousands) | 1997 | 1996 |
|---|---|---|
| Senior unsecured indebtedness | $100,000 | $100,000 |
| Borrowings supported by a revolving credit commitment | 51,000 | 42,000 |
| Other long-term debt | 368 | 8,129 |
| | 151,368 | 150,129 |
| Less: current maturities | (352) | (325) |
| Total long-term debt | $151,016 | $149,804 |

The annual maturities of the Corporation's long-term debt due in the next five years are $0.4 million in 1998 and $51.0 million in 2002.

In September 1994, the Corporation filed a registration statement with the Securities and Exchange Commission that allows the Corporation to issue from time to time up to $300.0 million of unsecured indebtedness. In October 1995, the Corporation issued $100.0 million of its notes to the public. The notes require payment of interest on a semiannual basis at a rate of 6.625% and mature in their entirety on October 1, 2005. The proceeds of this issuance were used to repay a portion of the Corporation's outstanding commercial paper and for working capital and general corporate purposes.

Interest payments on debt and on other interest-bearing obligations were $17.5 million, $13.2 million and $13.0 million for 1997, 1996 and 1995.

Note 6 - Income Taxes

Earnings before income taxes consisted of the following:

| (Amounts in thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| U.S. | $210,966 | $172,553 | $153,423 |
| Foreign | 27,710 | 36,100 | 26,466 |
| Total | $238,676 | $208,653 | $179,889 |

The provision for income taxes consisted of the following:

| (Amounts in thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Current: | | | |
| Federal | $60,551 | $55,949 | $ 57,328 |
| Foreign | 7,555 | 13,803 | 10,250 |
| State | 8,390 | 8,997 | 9,079 |
| Total current | 76,496 | 78,749 | 76,657 |
| Deferred: | | | |
| Federal | 8,493 | (615) | (8,895) |
| Foreign | 1,865 | (428) | (176) |
| State | 1,456 | (504) | (1,027) |
| Total deferred | 11,814 | (1,547) | (10,098) |

| | | | |
|---|---|---|---|
| Total income tax provision | $88,310 | $77,202 | $ 66,559 |

A reconciliation of the Corporation's effective income tax rate to the statutory federal tax rate follows:

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% |
| Increase (decrease) in tax rate resulting from: | | | |
| State income taxes, net of federal benefit | 2.8 | 2.4 | 2.5 |
| Foreign sales corporation tax benefit | (1.2) | (1.5) | (1.8) |
| Other | 0.4 | 1.1 | 1.3 |
| Effective tax rate | 37.0% | 37.0% | 37.0% |

Temporary differences that give rise to the net deferred tax benefit are as follows:

| (Amounts in thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Current deferred income tax benefit: | | | |
| Inventories | $ 18,294 | $ 14,599 | $ 16,534 |
| Accruals and reserves not currently deductible | 26,820 | 36,372 | 15,136 |
| Other | (491) | 56 | 2,956 |
| Total current (included in prepaid expenses) | 44,623 | 51,027 | 34,626 |
| Long-term deferred income tax benefit: | | | |
| Employee benefits | 61,017 | 57,299 | 50,017 |
| Net operating losses | 23,277 | 23,585 | 30,313 |
| Depreciation | (22,363) | (13,409) | (18,118) |
| Other | (3,398) | (6,528) | 4,661 |
| Valuation allowance | (14,658) | (12,561) | (10,162) |
| Total long-term | 43,875 | 48,386 | 56,711 |
| Net deferred income tax benefit | $ 88,498 | $ 99,413 | $ 91,337 |

At January 3, 1998, the Corporation had tax net operating loss carryforwards ("NOLs") totaling $67.6 million as follows:

| (Amounts in millions) | U.S. | Foreign | Total |
|---|---|---|---|
| Year of Expiration: | | | |
| 1999 | $ - | $ 0.4 | $ 0.4 |
| 2000 | 3.7 | 0.8 | 4.5 |
| 2001 | - | 1.7 | 1.7 |
| 2002 | 1.3 | 2.2 | 3.5 |
| 2003 | 10.2 | - | 10.2 |
| 2004 | 1.6 | - | 1.6 |
| 2005 | 14.0 | 0.4 | 14.4 |
| 2006 | 9.3 | 0.2 | 9.5 |
| 2007 | 1.1 | - | 1.1 |
| 2009 | - | 0.5 | 0.5 |
| 2010 | 3.8 | 1.7 | 5.5 |
| 2011 | - | 2.3 | 2.3 |
| Indefinite | - | 12.4 | 12.4 |
| | $45.0 | $22.6 | $67.6 |

In accordance with current accounting standards, a valuation allowance totaling $14.7 million, $12.6 million and $10.2 million in 1997, 1996 and 1995 has been established for deferred income tax benefits related to certain subsidiary loss carryforwards that may not be realized. Included in this valuation allowance is $6.7 million that relates to the deferred tax assets recorded from acquisitions. Any tax benefits subsequently recognized for these deferred tax assets will be allocated to goodwill.

Realization of the net deferred tax assets is dependent on generating sufficient taxable income prior to their expiration. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The undistributed earnings of all subsidiaries were $117.0 million, $120.3 million and $100.2 million at the end of 1997, 1996 and 1995. The Corporation does not expect that additional income taxes will be incurred on future distributions of such earnings and, accordingly, no deferred income taxes have been provided for the distribution of these earnings to the parent company.

The Corporation made income tax payments of $76.0 million, $69.7 million and $63.5 million in 1997, 1996 and 1995.

Note 7 - Financial Instruments

The Corporation uses derivative instruments to manage well-defined interest rate and foreign currency exposures. The Corporation 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.

Foreign Currency Derivative Instruments: The Corporation 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. The Corporation manages most of these exposures on a consolidated basis, which allows netting certain exposures to take advantage of any natural offsets. To the extent the net exposures are hedged, forward contracts are used. Gains and/or losses on these foreign currency hedges are included in income in the period in which the exchange rates change. Gains and/or losses have not been material to the consolidated financial statements.

At January 3, 1998, the Corporation had forward exchange contracts to exchange Australian dollars, British pounds, Dutch guilders, French francs, German marks, Irish punts, Italian lira and Spanish pesetas for a U.S. dollar equivalent of $79.8 million.

Interest Rate Swap Agreements: The Corporation enters into interest rate swap agreements to manage interest costs and risks associated with changing interest rates. The differentials paid or received on interest rate agreements are accrued and recognized as adjustments to interest expense. Gains and losses realized upon settlement of these agreements are deferred and amortized to interest expense over a period relevant to the agreement if the underlying hedged instrument remains outstanding, or immediately if the underlying hedged instrument is settled.

The Corporation has interest rate swap agreements in place to pay fixed interest rates in exchange for floating interest rate payments. At January 3, 1998 and December 28, 1996, the notional principal amounts outstanding of these agreements was $32.1 million and $35.7 million.

Credit Concentrations: The Corporation is exposed to credit losses in the event of non-performance by the counterparties to its interest rate swap and foreign exchange contracts. The Corporation does not anticipate non-performance by the counterparties. The Corporation does not obtain collateral or other security to support financial instruments subject to credit risk, but monitors the credit standing of the counterparties and enters into agreements only with financial institution counterparties with a credit rating of A- or better.

While the Corporation primarily sells to professional technicians and shop owners, the Corporation's accounts receivable do not represent significant concentrations of credit risk because of the diversified portfolio of individual customers and geographic areas.

Fair Value of Financial Instruments: Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosure about Fair Value of Financial Instruments," requires the Corporation to disclose the fair value of financial instruments for both on- and off-balance sheet assets and liabilities for which it is practicable to estimate that value. The following methods and assumptions were used in estimating the fair value for financial instruments:

Installment contracts: A discounted cash flow analysis was performed over the average life of a contract using a discount rate currently available to the Corporation adjusted for credit quality, cost and profit factors. As of January 3, 1998, and December 28, 1996, the fair value was approximately $168.2 million and $408.2 million versus a book value of $159.4 million and $379.7 million.

Interest rate swap agreements: The fair value of the agreements was based on a quote from the financial institution with which the Corporation executed the transactions. As of January 3, 1998, and December 28, 1996, the cost to terminate the agreements was $1.0 million and $0.9 million.

All other financial instruments: The carrying amounts approximate fair value based on quoted market prices or discounted cash flow analysis for cash equivalents, debt, forward exchange contracts and other financial instruments.

Note 8 - Pension Plans

The Corporation has several non-contributory pension plans covering most employees, including certain employees in foreign countries. Retirement benefits are generally provided based on employees' years of service and average earnings or stated amounts for years of service. Normal retirement age is 65, with provisions for earlier retirement. The Corporation recognizes retirement plan expenses in accordance with Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions," and contributes amounts to the plans, with most using the actuarially computed entry age normal cost method, which includes, in certain defined retirement benefit plans, amortization of past service cost over a maximum of 30 years.

The Corporation has several non-U.S. subsidiary pension plans that do not report pension expense in accordance with SFAS No. 87, as these plans and the related pension expense are not material.

The Corporation's net pension expense included the following components:

| (Amounts in thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Service cost - benefits earned during year | $ 14,630 | $ 13,191 | $ 10,813 |
| Interest cost on projected benefits | 28,047 | 25,657 | 23,764 |
| Less actual return on plan assets | (76,768) | (40,788) | (53,895) |
| Net amortization and deferral: | | | |
| Actual return on plan assets in excess of (less than) projected return | 46,641 | 14,226 | 28,721 |
| Amortization of net assets at transition | (1,193) | (1,084) | (1,401) |
| Other | 1,170 | 865 | 1,431 |
| Net pension expense | $ 12,527 | $ 12,067 | $ 9,433 |

The funded status of the Corporation's U.S. pension plans was as follows:

| (Amounts in thousands) | 1997 Assets Exceed Accumulated Benefits | 1997 Accumulated Benefits Exceed Assets | 1996 Assets Exceed Accumulated Benefits | 1996 Accumulated Benefits Exceed Assets |
|---|---|---|---|---|
| Actuarial present value of accumulated benefits: | | | | |
| Vested benefits | $277,217 | $ 6,589 | $249,753 | $ 6,166 |
| Non-vested benefits | 39,745 | 3,836 | 38,221 | 2,348 |
| Accumulated benefit obligation | 316,962 | 10,425 | 287,974 | 8,514 |
| Effect of projected | | | | |

| | | | | |
|---|---|---|---|---|
| future salary increases | 58,175 | 3,152 | 48,485 | 2,946 |
| Projected benefit obligation | 375,137 | 13,577 | 336,459 | 11,460 |
| Plan assets at market value | 439,235 | - | 370,058 | - |
| Plan assets in excess of (less than) projected benefit obligation | 64,098 | (13,577) | 33,599 | (11,460) |
| Unrecognized net assets at year-end | (6,054) | 32 | (7,119) | 91 |
| Unrecognized net (gain) or loss from experience different from assumed | (120,749) | 4,189 | (82,238) | 3,292 |
| Unrecognized prior service cost | 9,048 | 435 | 9,708 | 493 |
| Additional minimum liability | - | (553) | - | (640) |
| Pension liability | $ (53,657) | $ (9,474) | $ (46,050) | $(8,224) |

The actuarial present value of the projected benefit obligation was determined using a discount rate of 7.50% for 1997 and 7.75% for 1996. The projected future salary increase assumption was 5.0% and the expected long-term rate of return on plan assets was 9.0% for the two years reported.

Plan assets are stated at market value and primarily consist of corporate equities and various debt securities.

The pension liability for 1997 consists of a current liability of $3.5 million and a long-term liability of $59.6 million. The long-term liability represents pension obligations that are not expected to be funded during the next 12 months.

Note 9 - Retiree Health Care

The Corporation provides certain health care benefits for most retired U.S. employees. The majority of the Corporation's U.S. employees become eligible for those benefits if they reach early retirement age while working for the Corporation; however, the age and service requirements for eligibility under the plans have been increased for certain employees hired on and after specified dates since 1992. Generally, most plans pay stated percentages of covered expenses after a deductible is met. There are several plan designs, with more recent retirees being covered under a comprehensive major medical plan. In determining benefits, the plans take into consideration payments by Medicare and other coverages.

For employees retiring under the comprehensive major medical plans, there are contributions required, and these plans contain provisions allowing for benefit and coverage changes. The plans require retirees to contribute either the full cost of the coverage, or amounts estimated to exceed a capped per-retiree annual cost commitment by the Corporation. Most employees hired since 1994 are required to pay the full cost. The Corporation does not fund the retiree health care plans.

The Corporation recognizes postretirement health care expense in accordance with Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions."

The components of the expense for postretirement health care benefits are as follows:

| (Amounts in thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Net periodic cost | | | |
| Service cost - benefits attributed service during the period | $1,945 | $2,012 | $1,707 |
| Interest cost on accumulated postretirement benefit obligation | 5,467 | 5,273 | 5,228 |
| Amortization of unrecognized net gain | (527) | (487) | (622) |
| Net postretirement health care expense | $6,885 | $6,798 | $6,313 |

The components of the accumulated postretirement benefit obligation are as follows:

| (Amounts in thousands) | 1997 | 1996 |
|---|---|---|
| Accumulated postretirement benefit obligation: | | |
| Retirees | $36,741 | $35,329 |
| Fully eligible active plan participants | 13,537 | 11,481 |
| Other active plan participants | 27,502 | 26,205 |
| Accumulated postretirement benefit obligation | 77,780 | 73,015 |
| Unrecognized net gain | 13,040 | 15,067 |
| Postretirement liability | $90,820 | $88,082 |

The accumulated postretirement benefit obligation at the end of 1997 consists of a current liability of $3.9 million and a long-term liability of $86.9 million. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.50% at the end of 1997 and 7.75% at the end of 1996.

The actuarial calculation assumes a health care trend rate of 8.5% in 1998 for benefits paid on pre-Medicare retirees, decreasing gradually to 5.0% in the year 2003 and thereafter. For benefits paid on Medicare-eligible retirees, a health care trend rate of 7.7% was assumed in 1998, decreasing to 5.0% in the year 2007 and thereafter.

As of January 3, 1998, a one percentage point increase in the health care cost trend rate for future years would not materially affect the accumulated postretirement benefit obligation or the service cost and interest cost components.

Note 10 - Stock Option and Purchase Plans

On June 28, 1996, the board of directors approved a three-for-two stock split of the Corporation's common stock. Distribution of shares in connection with the stock split was made on September 10, 1996. All share-related amounts in these financial statements reflect that split.

The Corporation has a stock option plan for directors, officers and key employees with expiration dates on the options ranging from 1999 to 2007. The plan provides that options be granted at exercise prices equal to market value on the date the option is granted.

The Corporation offers shareholders a convenient way to increase their investment in the Corporation through a no-commission dividend reinvestment and stock purchase plan. Participating shareholders may invest the cash dividends from all or a portion of their common stock to buy additional shares. The program also permits shareholders to invest cash for additional shares that are purchased for them each month. For 1997, 1996 and 1995, shares issued under the dividend reinvestment and stock purchase plan totaled 19,764, 24,283 and 26,567. At January 3, 1998, 1,979,090 shares were available for purchase under this plan. Subsequent to the end of 1997, the plan was amended to add more features, including initial investments from new investors and weekly stock purchases.

Employees of the Corporation are entitled to participate in an employee stock ownership plan. The purchase price of the common stock is the lesser of the mean of the high and low price of the stock on the beginning date (May 15) or ending date (May 14) of each plan year. The board of directors may terminate this plan at any time. For 1997, 1996 and 1995, shares issued under the employee stock ownership plan totaled 120,978, 131,432 and 73,409. At January 3, 1998, shares totaling 790,605 were reserved for issuance to employees under this plan, and the Corporation held contributions of $1.9 million for the purchase of common stock.

Franchised dealers are entitled to participate in a dealer stock ownership plan. The purchase price of the common stock is the lesser of the mean of the high and low price of the stock on the beginning date (May 15) or ending date (May 14) of each plan year. The board of directors may terminate this plan at any time. For 1997, 1996 and 1995, shares issued under the dealer stock ownership plan totaled 133,679, 117,902 and 84,701. At January 3, 1998, 630,984 shares were reserved for issuance to franchised dealers under this plan, and the Corporation held contributions of $2.8 million for the purchase of common stock.

Non-employee directors receive a mandatory minimum of 25% and an elective maximum of up to 100% of their fees and retainer in shares of the Corporation's stock. Directors may elect to defer receipt of all or part of these shares. For 1997, 1996 and 1995, shares issued under the Directors' Fee Plan totaled 3,008, 3,140 and 8,613. Additionally, receipt of 3,226, 6,327 and 2,588 shares were deferred in 1997, 1996 and 1995. At January 3, 1998, 268,096 shares were reserved for issuance to directors under this plan.

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," effective January 1996. As permitted, the Corporation continued its current method of accounting for stock-based compensation plans in accordance with Accounting Principles Board (APB) Opinion No. 25.

In accordance with SFAS No. 123, the fair value of each option grant was estimated as of the date of grant using an option pricing model. The Corporation used the following weighted average assumptions, under the Black-Scholes option pricing model, for options granted in 1997, 1996 and 1995, respectively: expected volatility of 17.9%, 21.6% and 21.3%; risk-free interest rates of 6.4%, 5.7% and 7.5%; dividend yield of 2.8%, 3.1% and 3.3%; and expected option lives of 5.8 years, 6.9 years and 5.7 years. If the Corporation had elected to recognize compensation cost for stock-based compensation consistent with the methodology prescribed by SFAS No. 123, net earnings and net earnings per share for 1997, 1996 and 1995 would have changed to the pro forma amounts in the right column.

| (Amounts in thousands except per share data) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Net earnings: | | | |
| As reported | $150,366 | $131,451 | $113,330 |
| Pro forma | 148,354 | 130,595 | 111,375 |
| Earnings per share - basic: | | | |
| As reported | $ 2.47 | $ 2.16 | $ 1.84 |
| Pro forma | 2.44 | 2.14 | 1.81 |

Stock option activity was as follows:

| | 1997 Options | 1997 Weighted Average Exercise Price | 1996 Options | 1996 Weighted Average Exercise Price | 1995 Options | 1995 Weighted Average Exercise Price |
|---|---|---|---|---|---|---|
| Outstanding at beginning of period | 2,007,423 | $21.90 | 2,498,742 | $21.54 | 2,329,826 | $20.99 |
| Granted | 480,125 | 37.13 | 72,000 | 30.52 | 714,750 | 21.06 |
| Exercised | (364,802) | 21.64 | (370,146) | 20.78 | (516,044) | 18.40 |
| Canceled | (8,518) | 31.24 | (193,173) | 22.56 | (29,790) | 21.51 |
| Outstanding at end of period | 2,114,228 | $25.37 | 2,007,423 | $21.90 | 2,498,742 | $21.54 |
| Exercisable at end of period | 1,663,253 | $22.18 | 1,792,859 | $21.88 | 2,122,736 | $21.52 |
| Available for grant at end of period | 3,071,746 | | 3,543,353 | | 1,892,390 | |

The weighted average fair value of options, calculated using the Black-Scholes option pricing model, granted during the years ended January 3, 1998, December 28, 1996, and December 30, 1995, were $7.86, $6.99 and $4.91. The following table summarizes information about stock options outstanding as of January 3, 1998:

| | 1997 Options Outstanding | | | 1997 Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $19 to $25 | 1,555,664 | 5.0 | $21.53 | 1,555,664 | $21.53 |
| $25 to $31 | 62,589 | 7.4 | 29.37 | 62,589 | 29.37 |
| $31 to $38 | 495,975 | 9.0 | 36.91 | 45,000 | 34.76 |
| Totals | 2,114,228 | 6.0 | $25.37 | 1,663,253 | $22.18 |

Note 11 - Capital Stock

On June 27, 1997, the Corporation's board of directors authorized the repurchase of $100.0 million of the Corporation's common stock over a two-year period. At the end of 1997, substantially all of the authorization remained available. In 1996, the Corporation's board of directors approved an ongoing authorization to repurchase stock in an amount equivalent to that necessary to prevent dilution created by shares issued for stock options, employee and dealer stock purchase plans, and other corporate purposes. In 1997, the Corporation repurchased 986,333 shares of its common stock at an average price of $42.91. In 1996, the Corporation repurchased 615,750 shares of its common stock at an average price of $31.12.

On August 22, 1997, the board of directors declared a dividend distribution of one preferred stock purchase right for each share of the Corporation's outstanding common stock. The rights are exercisable only if a person or group acquires 15% or more of the Corporation's common stock ("Acquiring Person") or publicly announces a tender offer to become an Acquiring Person. Each right may then be exercised to purchase one one-hundred-and- fiftieth of a share of Series A Junior Preferred Stock for $190, but if a person or group becomes an Acquiring Person, then each right entitles the holder (other than an Acquiring Person) to acquire common stock of the Corporation having a market value equivalent to two times the current purchase price. If the Corporation is acquired in a merger or other business combination not approved by the board of directors, then each holder of a right will be entitled to purchase common stock of the surviving company having a market value equivalent to two times the current purchase price. The effect of the rights is to cause ownership dilution to a person or group attempting to acquire the Corporation without approval of the Corporation's board of directors. The rights expire on November 3, 2007, and may be redeemed by the Corporation at a price of $.01 per right under certain circumstances.

Note 12 - Commitments and Contingencies

The Corporation has entered into certain operating lease agreements on facilities and computer equipment, which extend for varying amounts of time.

The Corporation's lease commitments require future payments as follows:

| Year Ending | (Amounts in thousands) |
|---|---|
| 1998 | $17,757 |
| 1999 | 12,487 |
| 2000 | 7,667 |
| 2001 | 5,435 |
| 2002 | 4,401 |
| 2003 and thereafter | 14,208 |

Rent expenses for worldwide facilities and computer equipment were $18.6 million, $18.0 million and $14.4 million in 1997, 1996 and 1995.

Tejas Testing Technology One, L.C. and Tejas Testing Technology Two, L.C. (the "Tejas Companies"), former subsidiaries of the Corporation, previously entered into contracts with the Texas Natural Resources Conservation Commission ("TNRCC"), an agency of the State of Texas, to perform automotive emissions-testing services. The Corporation guaranteed payment (the "Guaranty") of the Tejas Companies' obligations under a seven year lease agreement in the amount of approximately $98.8 million plus an interest factor, pursuant to which the Tejas Companies leased the facilities necessary to perform the contracts. The Guaranty was assigned to the lessor's lenders. The Tejas Companies agreed to indemnify the Corporation for any payments it must make under the Guaranty.

The State of Texas subsequently terminated the emissions program described in the contracts. The Tejas Companies filed for bankruptcy, and commenced litigation in state and federal court against the TNRCC and related entities. As a result, the Corporation recognized the obligation under the Guaranty, which as of January 3, 1998, is $38.5 million, in Other Long-term Liabilities on the accompanying Consolidated Balance Sheets. In addition, the Corporation has recorded as assets the net amounts paid or payable under the Guaranty, which are expected to be received from the State of Texas. These net receivables total $93.7 million as of January 3, 1998, and are included in Intangible and Other Assets on the accompanying Consolidated Balance Sheets.

Subsequent to January 3, 1998, the settlement agreement was approved by the U.S. Bankruptcy Court. Pursuant to this settlement agreement, the obligation under the Guaranty previously recorded as a contingent liability has been satisfied. The remaining net receivable of $55.2 million represents the expected reimbursement of funds paid by the Corporation on the Guaranty. The Corporation expects to receive $19.0 million toward the net receivable in settlement payments by May 31, 1999, which payments have been appropriated by the Texas Legislature. The Corporation expects to receive further payments in an amount sufficient to satisfy the balance of the net receivables by August 31, 2001, which payments are subject to appropriation. The Corporation believes that ultimate recovery of the net receivables is probable.

Note 13 - Reporting Segments

The Corporation operates predominantly in a single industry as a manufacturer and distributor of tools and equipment for the professional technician and other customers.

The following table presents information about the Corporation by geographic area:

| (Amounts in thousands) | North America | Europe | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales to unaffiliated customers | | | | | |
| 1997 | $1,317,440 | $274,353 | $80,422 | $ - | $1,672,215 |
| 1996 | 1,138,016 | 268,818 | 78,445 | - | 1,485,279 |
| 1995 | 1,029,516 | 183,301 | 79,308 | - | 1,292,125 |
| Transfers between geographic areas | | | | | |
| 1997 | $ 109,325 | $ 3,540 | $ 4 | $(112,869) | $ - |
| 1996 | 106,224 | 2,907 | 6 | (109,137) | - |
| 1995 | 98,531 | 2,478 | 123 | (101,132) | - |
| Operating income | | | | | |
| 1997 | $ 246,909 | $ 18,055 | $ 3,020 | $ (2,447) | $ 265,537 |
| 1996 | 196,866 | 20,994 | 4,235 | (1,569) | 220,526 |
| 1995 | 180,438 | 6,201 | 6,446 | (4,441) | 188,644 |
| Identifiable assets | | | | | |
| 1997 | $1,359,120 | $262,063 | $41,932 | $ (21,758) | $1,641,357 |
| 1996 | 1,274,908 | 226,286 | 39,748 | (20,154) | 1,520,788 |
| 1995 | 1,144,938 | 206,177 | 36,413 | (26,555) | 1,360,973 |

Transfers between geographic areas primarily represent intercompany export sales of U.S.-produced goods and are accounted for based on established sales prices between the related companies. Export sales to foreign unaffiliated customers represent less than 10% of consolidated net sales. In computing operating income for foreign subsidiaries, no allocations of general corporate expenses, interest or income taxes have been made.

Quarterly Financial Information

| Unaudited (Amounts in thousands except per share data) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Net sales | | | |
| 1st Quarter | $ 375,299 | $ 344,364 | $ 309,107 |
| 2nd Quarter | 409,231 | 384,554 | 326,816 |
| 3rd Quarter | 391,162 | 347,202 | 309,065 |
| 4th Quarter | 496,523 | 409,159 | 347,137 |
| | $1,672,215 | $1,485,279 | $1,292,125 |
| Gross profit | | | |
| 1st Quarter | $ 192,967 | $ 173,829 | $ 159,269 |
| 2nd Quarter | 207,667 | 194,129 | 167,247 |
| 3rd Quarter | 199,294 | 176,478 | 158,039 |
| 4th Quarter | 243,900 | 206,348 | 178,936 |

| | | | |
|---|---|---|---|
| | $ 843,828 | $ 750,784 | $ 663,491 |
| Net earnings | | | |
| 1st Quarter | $ 33,854 | $ 29,650 | $ 26,460 |
| 2nd Quarter | 38,971 | 34,528 | 29,718 |
| 3rd Quarter | 35,514 | 30,765 | 26,329 |
| 4th Quarter | 42,027 | 36,508 | 30,823 |
| | ---------- | ---------- | ---------- |
| | $ 150,366 | $ 131,451 | $ 113,330 |
| Earnings per weighted average common share - basic* | | | |
| 1st Quarter | $ .56 | $ .49 | $ .42 |
| 2nd Quarter | .64 | .56 | .48 |
| 3rd Quarter | .58 | .51 | .43 |
| 4th Quarter | .69 | .60 | .51 |
| | ---------- | ---------- | ---------- |
| | $ 2.47 | $ 2.16 | $ 1.84 |
| Earnings per weighted average common share - diluted* | | | |
| 1st Quarter | $ .55 | $ .48 | $ .42 |
| 2nd Quarter | .63 | .56 | .48 |
| 3rd Quarter | .58 | .50 | .43 |
| 4th Quarter | .68 | .59 | .50 |
| | ---------- | ---------- | ---------- |
| | $ 2.44 | $ 2.13 | $ 1.83 |

*Adjusted for the three-for-two stock split in 1996.

(CHART)

Six-year Data

| (Amounts in thousands except share data) | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| Summary of operations | | | | | | |
| Net sales | $1,672,215 | $1,485,279 | $1,292,125 | $1,194,296 | $1,132,010 | $983,800 |
| Gross profit | 843,828 | 750,784 | 663,491 | 608,837 | 95,728 | 509,413 |
| Operating expenses | 650,182 | 594,527 | 538,021 | 510,361 | 509,910 | 457,384 |
| Operating profit before net finance income | 193,646 | 156,257 | 125,470 | 8,476 | 85,818 | 52,029 |
| Net finance income | 71,891 | 64,269 | 63,174 | 60,458 | 1,115 | 63,646 |
| Operating income | 265,537 | 220,526 | 188,644 | 158,934 | 46,933 | 115,675 |
| Interest expense | 17,654 | 12,649 | 13,327 | 10,806 | 1,198 | 5,969 |
| Other income (expense) - net | (9,207) | 776 | 4,572 | 5,541 | 756 | (131) |
| Earnings before income taxes | 238,676 | 208,653 | 179,889 | 153,669 | 36,491 | 109,575 |
| Income taxes | 88,310 | 77,202 | 66,559 | 55,355 | 0,679 | 43,600 |
| Net earnings | 150,366 | 131,451 | 113,330 | 98,314 | 5,812 | 65,975 |
| | ---------- | ---------- | ---------- | ---------- | ---------- | -------- |
| Financial position | | | | | | |
| Current assets | $1,021,709 | $1,017,324 | $ 946,689 | $ 873,020 | $ 854,598 | $832,603 |
| Current liabilities | 352,530 | 341,371 | 336,075 | 237,869 | 08,037 | 317,074 |
| Working capital | 669,179 | 675,953 | 610,614 | 635,151 | 46,561 | 515,529 |
| Accounts receivable | 539,589 | 651,739 | 610,064 | 568,378 | 39,949 | 508,092 |
| Inventories | 373,155 | 269,750 | 250,434 | 229,037 | 49,102 | 216,262 |
| Property and equipment - net | 265,765 | 245,294 | 220,067 | 209,142 | 24,810 | 226,498 |
| Total assets | 1,641,357 | 1,520,788 | 1,360,973 | 1,234,905 | ,218,933 | 1,172,413 |
| Long-term debt | 151,016 | 149,804 | 143,763 | 108,980 | 9,683 | 93,106 |
| Shareholders' equity | 892,137 | 828,161 | 750,732 | 766,398 | 01,663 | 664,665 |
| | ---------- | ---------- | ---------- | ---------- | ---------- | -------- |
| Common share summary* | | | | | | |
| Net earnings per share - basic | $ 2.47 | $ 2.16 | $ 1.84 | $ 1.53 | $ 1.34 | $ 1.04 |
| Cash dividends paid per share | .82 | .76 | .72 | .72 | .72 | .72 |
| Shareholders' equity per share | 14.74 | 13.62 | 12.35 | 11.91 | 10.99 | 10.45 |
| Weighted average shares outstanding - basic | 60,845,467 | 60,967,865 | 61,510,500 | 64,187,874 | 3,856,175 | 63,515,672 |
| | ---------- | ---------- | ---------- | ---------- | ---------- | -------- |
| Other statistics | | | | | | |
| Cash dividends paid | $ 49,888 | $ 46,323 | $ 44,113 | $ 46,197 | $ 45,942 | $ 45,718 |
| Dividends paid as a percent of net earnings | 33.2% | 35.2% | 38.9% | 7.0% | 53.5% | 69.3% |
| Capital expenditures | 55,442 | 52,333 | 31,581 | 41,788 | 3,248 | 21,081 |
| Depreciation and amortization | 38,377 | 31,879 | 31,534 | 29,632 | 2,131 | 29,457 |
| Current ratio | 2.9 | 3.0 | 2.8 | 3.7 | 2.8 | 2.6 |
| Percent of total debt to total capital | 16.4% | 17.3% | 18.5% | 13.5% | 9.3% | 19.5% |
| Effective tax rate | 37.0% | 37.0% | 37.0% | 36.0% | 7.1% | 39.8% |
| Operating income as a percent of net sales | 15.9% | 14.8% | 14.6% | 3.3% | 13.0% | 11.8% |
| Net earnings as a percent of net sales | 9.0% | 8.9% | 8.8% | 8.2% | 7.6% | 6.7% |
| Return on average shareholders' equity | 17.5% | 16.7% | 14.9% | 13.4% | 2.6% | 10.0% |
| Shareholders of record | 10,738 | 10,556 | 9,657 | 9,292 | 9,047 | 9,173 |
| Common stock price range* | 46.31-34.25 | 38.25-27.33 | 31.50-20.67 | 29.58-19.33 | 9.67-20.33 | 26.67-18.00 |

*Adjusted for the three-for-two stock split in 1996.

## Management's Responsibility for Financial Reporting

The management of Snap-on Incorporated is responsible for the preparation and integrity of all financial statements and other information contained in this Annual Report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include amounts based on judgments and estimates by management giving due consideration to materiality. The Corporation maintains internal control systems designed to provide reasonable assurance that the Corporation's financial records reflect the transactions of the Corporation and that its assets are protected from loss or unauthorized use. A staff of internal auditors conducts operational and financial audits to evaluate the adequacy of internal controls and accounting practices.

The Corporation's consolidated financial statements have been audited by Arthur Andersen LLP, independent public accountants, whose report thereon appears below. As part of their audit of the Corporation's consolidated financial statements, Arthur Andersen LLP considered the Corporation's system of internal control to the extent they deemed necessary to determine the nature, timing and extent of their audit tests. Management has made available to Arthur Andersen LLP the Corporation's financial records and related data.

The Audit Committee of the board of directors is responsible for reviewing and evaluating the overall performance of the Corporation's financial reporting and accounting practices. The Committee meets periodically and independently with management, internal auditors and the independent public accountants to discuss the Corporation's internal accounting controls, auditing and financial reporting matters. The internal auditors and independent public accountants have unrestricted access to the Audit Committee.

| | |
|---|---|
| Robert A. Cornog | Donald S. Huml |
| Chairman, President and | Senior Vice President - |
| Chief Executive Officer | Finance and Chief Financial Officer |

## Report of Independent Public Accountants

To the Board of Directors and
Shareholders of Snap-on Incorporated:

We have audited the accompanying consolidated balance sheets of Snap-on Incorporated (a Delaware Corporation) and subsidiaries as of January 3, 1998, and December 28, 1996, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended January 3, 1998. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Snap-on Incorporated and subsidiaries as of January 3, 1998, and December 28, 1996, and the consolidated results of their operations and cash flows for each of the three years in the period ended January 3, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Chicago, Illinois
January 27, 1998

## Investor Information

### Common Stock High/Low Prices*

| Quarter | 1997 | 1996 |
|---|---|---|
| First | $42.38 - $34.25 | $31.67 - $28.50 |
| Second | 41.00 - 35.25 | 32.92 - 30.00 |
| Third | 44.88 - 39.19 | 32.63 - 27.33 |
| Fourth | 46.31 - 41.50 | 38.25 - 31.88 |

### Dividends Paid per Common Share*

| Quarter | 1997 | 1996 |
|---|---|---|
| First | $.20 | $.18 |
| Second | .20 | .18 |
| Third | .21 | .20 |
| Fourth | .21 | .20 |
| Total | $.82 | $.76 |

### Exchange Listing

Snap-on Incorporated common stock is listed on the New York Stock Exchange, Ticker Symbol SNA.

### Transfer Agent and Registrar

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, NJ 07303-2500

or

525 Washington Boulevard
Jersey City, NJ 07310

### Shareholder Inquiries

Shareholders with questions may call the Transfer Agent, First Chicago Trust Company of New York, toll-free at 1-800-446-2617 or e-mail fctc@em.fcnbd.com. The deaf and hearing-impaired can call (201) 222-4955.

### Dividend Record and Pay Dates for 1998

| Quarter | Record Date | Pay Date |
|---|---|---|
| First | February 17 | March 10 |
| Second | May 20 | June 10 |
| Third | August 20 | September 10 |
| Fourth | November 19 | December 10 |

### Dividend Reinvestment and Direct Stock Purchase Plan

Investors may purchase stock directly from the company and increase their investment through a no-commission dividend reinvestment and direct stock purchase plan. For information write to:

First Chicago Trust Company of New York
Snap-on Dividend Reinvestment and Direct Stock Purchase Plan
P.O. Box 2598
Jersey City, NJ 07303-2598
Or call: 1-800-446-2617

### Form 10-K and Other Financial Publications

These publications are available without charge. Contact the public relations department at P.O. Box 1410, Kenosha, WI 53141-1410, call (414) 656-4808 (recorded message), or e-mail financials@snapon.com.

### Analyst Contact

Securities analysts and other investors seeking information about the corporation should contact Lynn McHugh, vice president   investor relations, (414) 656-6488.

## Independent Auditors

Arthur Andersen LLP
33 West Monroe Street
Chicago, Illinois 60603
(312) 580-0033

## Annual Meeting

The Annual Meeting of Shareholders will be held at the Racine Marriott, 7111 Washington Avenue, Racine, Wisconsin, at 10:00 a.m. on Friday, April 24, 1998.

## Corporate Offices

P.O. Box 1430
Kenosha, Wisconsin 53141-1430
(414) 656-5200
Internet address:  www.snapon.com

*Adjusted for the three-for-two stock split in 1996.