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

FORM 10-Q

(Mark one)

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

For the quarterly period ended **September 30, 2006**

OR

| | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-7724

Snap-on Incorporated

(Exact name of registrant as specified in its charter)

Delaware	**39-0622040**
(State of incorporation)	*(I.R.S. Employer Identification No.)*
2801 80th Street, Kenosha, Wisconsin	**53143**
(Address of principal executive offices)	*(Zip code)*

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer |X| Accelerated filer | | Non-accelerated filer | |

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

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

Class	Outstanding at October 13, 2006
Common Stock, $1 par value	58,376,921 shares

TABLE OF CONTENTS

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

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net sales	$ 599.5	$ 554.1	$ 1,817.4	$ 1,745.2
Cost of goods sold	(339.3)	(306.9)	(1,015.9)	(972.5)
Gross profit	260.2	247.2	801.5	772.7
Financial services revenue	11.3	13.1	34.2	43.4
Financial services expenses	(8.3)	(9.5)	(26.2)	(30.5)
Operating income from financial services	3.0	3.6	8.0	12.9
Operating expenses:				
Selling, general and administrative	(217.0)	(208.0)	(665.8)	(661.2)
Litigation settlement	--	--	(38.0)	--
Total operating expenses	(217.0)	(208.0)	(703.8)	(661.2)
Operating earnings	46.2	42.8	105.7	124.4
Interest expense	(4.5)	(5.6)	(13.6)	(17.1)
Other income (expense) - net	1.3	(0.5)	0.4	(2.2)
Earnings before income taxes	43.0	36.7	92.5	105.1
Income tax expense	(14.8)	(15.7)	(30.4)	(39.6)
Net earnings	$ 28.2	$ 21.0	$ 62.1	$ 65.5
Earnings per share:				
Basic	$ 0.48	$ 0.36	$ 1.07	$ 1.13
Diluted	$ 0.48	$ 0.36	$ 1.05	$ 1.12
Weighted-average shares outstanding:				
Basic	58.2	57.9	58.2	57.8
Effect of dilutive options	0.6	0.7	0.9	0.6
Diluted	58.8	58.6	59.1	58.4
Dividends declared per common share	$ 0.27	$ 0.25	$ 0.81	$ 1.00

See notes to Consolidated Financial Statements

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

	September 30, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	$ 246.0	$ 170.4
Accounts receivable - net of allowances	502.4	485.9
Inventories	312.6	283.2
Deferred income tax benefits	81.4	76.3
Prepaid expenses and other assets	69.4	57.1
Total current assets	1,211.8	1,072.9
Property and equipment		
Land	23.7	23.4
Buildings and improvements	231.8	229.2
Machinery and equipment	531.1	556.1
	786.6	808.7
Accumulated depreciation and amortization	(506.7)	(513.2)
Property and equipment - net	279.9	295.5
Deferred income tax benefits	66.8	57.8
Goodwill	419.6	398.3
Other intangibles - net	65.2	64.0
Pension assets	20.7	20.6
Other assets	105.5	99.3
Total assets	$ 2,169.5	$ 2,008.4

See notes to Consolidated Financial Statements

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

	September 30, 2006	December 31, 2005
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	$ 168.0	$ 135.4
Notes payable and current maturities of long-term debt	17.7	24.8
Accrued benefits	32.7	35.4
Accrued compensation	75.4	62.2
Franchisee deposits	43.3	44.4
Deferred subscription revenue	19.0	26.6
Income taxes	36.5	33.1
Accrued litigation settlement	38.0	--

Other accrued liabilities	169.4	144.2
Total current liabilities	600.0	506.1
Long-term debt	198.1	201.7
Deferred income taxes	73.1	75.3
Retiree health care benefits	89.3	90.8
Pension liabilities	107.1	92.7
Other long-term liabilities	70.5	79.6
Total liabilities	1,138.1	1,046.2
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 67,074,834 and 67,049,257 shares)	67.1	67.0
Additional paid-in capital	120.8	113.3
Retained earnings	1,158.2	1,143.8
Accumulated other comprehensive income (loss)	(8.4)	(56.6)
Grantor Stock Trust at fair market value (849,248 and 3,204,308 shares)	(37.8)	(120.3)
Treasury stock at cost (7,948,060 and 5,886,864 shares)	(268.5)	(185.0)
Total shareholders' equity	1,031.4	962.2
Total liabilities and shareholders' equity	$ 2,169.5	$ 2,008.4

See notes to Consolidated Financial Statements

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

	Nine Months Ended	
	September 30, 2006	October 1, 2005
Operating activities:		
Net earnings	$ 62.1	$ 65.5
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	35.4	37.3
Amortization of other intangibles	1.6	2.3
Stock-based compensation expense	11.7	--
Deferred income tax provision (benefit)	(18.1)	10.6
Gain on sale of assets	(0.3)	(1.4)
Gain on mark to market for cash flow hedges	(0.2)	(0.4)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(1.3)	10.0
(Increase) decrease in inventories	(19.2)	(2.4)
(Increase) decrease in prepaid and other assets	(5.4)	27.4
Increase (decrease) in accounts payable	28.8	(51.3)
Increase (decrease) in accruals and other liabilities	55.8	19.1
Net cash provided by operating activities	150.9	116.7
Investing activities:		
Capital expenditures	(31.5)	(27.8)
Proceeds from disposal of property and equipment	11.2	7.4
Net cash used in investing activities	(20.3)	(20.4)
Financing activities:		
Net decrease in short-term borrowings	(8.4)	(19.1)

Purchase of treasury stock	(83.5)	(17.6)
Proceeds from stock purchase and option plans	74.3	19.4
Excess tax benefits from stock-based compensation	8.8	--
Cash dividends paid	(47.7)	(43.3)
Net cash used in financing activities	(56.5)	(60.6)
Effect of exchange rate changes on cash and cash equivalents	1.5	(7.4)
Increase in cash and cash equivalents	75.6	28.3
Cash and cash equivalents at beginning of year	170.4	150.0
Cash and cash equivalents at end of period	$ 246.0	$ 178.3
Supplemental cash flow disclosures:		
Cash paid for interest	$ (15.0)	$ (17.6)
Net cash refunded (paid) for income taxes	(35.7)	3.9

See notes to Consolidated Financial Statements

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

1. Consolidated Financial Statements

These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Snap-on Incorporated's ("Snap-on" or "the company") 2005 Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

The consolidated financial statements include the accounts of Snap-on, its majority-owned subsidiaries and Snap-on Credit LLC ("SOC"), a 50%-owned joint venture with The CIT Group, Inc. ("CIT"). The consolidated financial statements do not include the accounts of the company's independent franchisees. All significant intercompany accounts and transactions have been eliminated. Certain prior-year amounts have been reclassified on the Consolidated Statements of Earnings to conform to the current-year presentation.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to a fair statement of financial condition and results of operations for the three and nine month periods ended September 30, 2006, and October 1, 2005, have been made. The interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year.

2. New Accounting Standards

Effective January 1, 2006, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "*Share-Based* Payment," using the modified prospective method. See Note 13 for additional information regarding stock-based compensation.

The Financial Accounting Standards Board ("FASB") released SFAS No. 156, "*Accounting for Servicing of Financial Assets*," to simplify accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 amends SFAS No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*." SFAS No. 156 permits an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities after they have been initially measured at fair value. SFAS No. 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006. SFAS No. 156 will be effective for Snap-on as of December 31, 2006, the beginning of the company's 2007 fiscal year. The company does not believe the adoption of SFAS No. 156 will have a material impact on the company's consolidated financial position or results of operations.

On July 13, 2006, the FASB issued Interpretation No. 48 ("FIN No. 48") "*Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109*." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "*Accounting for Income Taxes*." FIN No. 48 prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006, and Snap-on will adopt FIN No. 48 as of December 31, 2006, the beginning of the company's 2007 fiscal year. The company is assessing the impact the adoption of FIN No. 48 will have on the company's consolidated financial position and results of operations.

The FASB released SFAS No. 157, "*Fair Value Measurements,*" to define fair value, establish a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for Snap-on as of December 30, 2007, the beginning of the company's 2008 fiscal year. The company is assessing the impact the adoption of SFAS No. 157 will have on the company's consolidated financial position and results of operations.

The FASB released SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: an amendment of FASB Statements No. 87, 88, 106, and 132(R),*" which requires an employer to recognize the over funded or under funded status of defined benefit and other postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through an adjustment to comprehensive income. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. Snap-on is required to initially recognize the funded status of its defined benefit and other postretirement plans as of December 30, 2006, and to provide the required disclosures in the company's 2006 annual report on Form 10-K. The company is assessing the impact the adoption of SFAS No. 158 will have on the company's consolidated financial position.

3. Accounts Receivable

Accounts receivable include trade accounts, installment and other receivables, including the current portion of franchisee-financing receivables. The components of Snap-on's current accounts receivable were as follows:

(Amounts in millions)	September 30, 2006	December 31, 2005
Trade accounts receivable	$ 440.1	$ 414.8
Installment receivables, net of unearned finance charges of $7.3 million in both periods	54.8	51.0
Other accounts receivable	39.9	55.0
Total	534.8	520.8
Allowance for doubtful accounts	(32.4)	(34.9)
Total accounts receivable - net	$ 502.4	$ 485.9

The long-term portion of accounts receivable is classified in "Other assets" on the accompanying Consolidated Balance Sheets and is comprised of installment and other receivables, including franchisee-financing receivables, with payment terms that are due beyond one year. The components of Snap-on's long-term accounts receivable were as follows:

(Amounts in millions)	September 30, 2006	December 31, 2005
Installment receivables, net of unearned finance charges of $9.1 million and 9.4 million	$ 41.7	$ 41.2
Other long-term accounts receivable	19.0	18.9
Total	$ 60.7	$ 60.1

4. Inventories

Inventories by major classification were as follows:

(Amounts in millions)	September 30, 2006	December 31, 2005
Finished goods	$ 294.4	$ 269.0
Work in progress	35.3	33.6
Raw materials	60.4	62.7
Total FIFO value	390.1	365.3
Excess of current cost over LIFO cost	(77.5)	(82.1)
Total inventories	$ 312.6	$ 283.2

Inventories accounted for using the first-in, first-out ("FIFO") method as of September 30, 2006, and December 31, 2005, approximated 65% and 63% of total inventories. The company accounts for its non-U.S. inventory on the FIFO basis. As of September 30, 2006, 37% of the company's U.S. inventory was accounted for using the FIFO basis and 63% was accounted for using the last-in, first-out ("LIFO") basis. LIFO inventory liquidations resulted in a reduction of "Cost of goods sold" on the accompanying Consolidated Statements of Earnings in the three and nine month periods ended September 30, 2006, of $0.4 million and $1.8 million. There were no LIFO inventory liquidations for the three and nine month periods ended October 1, 2005.

Snap-on adopted the LIFO inventory valuation method in 1973 for its U.S. locations. Snap-on's U.S. inventories accounted for on LIFO consist of purchased product and inventory manufactured at the company's heritage U.S. manufacturing facilities (primarily hand tools and tool storage). As Snap-on began acquiring businesses in the 1990's, the company retained the FIFO inventory valuation methodology used by the predecessor businesses prior to their acquisition by Snap-on; the company does not adopt the LIFO inventory valuation methodology for new acquisitions.

5. Acquired Intangible Assets

Disclosures related to other intangible assets are as follows:

	September 30, 2006		December 31, 2005	
(Amounts in millions)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Amortized other intangible assets:				
Trademarks	$ 2.7	$ (0.9)	$ 2.6	$ (0.7)
Patents	32.2	(15.2)	32.6	(14.7)
Other	0.6	(0.1)	--	--
Total	35.5	(16.2)	35.2	(15.4)
Unamortized other intangible assets:				
Trademarks	45.9	--	44.2	--
Total	$ 81.4	$ (16.2)	$ 79.4	$ (15.4)

The weighted-average amortization period is 35 years for trademarks, 16 years for patents and 2 years for other intangible assets. The weighted-average amortization period for trademarks, patents and other intangible assets on a combined basis is 20 years.

Amortization expense was $0.8 million and $1.6 million for the three and nine month periods ended September 30, 2006, and $0.6 million and $2.3 million for the three and nine month periods ended October 1, 2005. Total estimated annual amortization expense is expected to be $2.1 million in 2006 and 2007 and $1.9 million for each of the subsequent three fiscal years, based on current levels of amortized intangible assets.

Goodwill was $419.6 million and $398.3 million at September 30, 2006, and December 31, 2005. The net increase in goodwill from year-end 2005 levels resulted from currency translation and $0.9 million related to the first-quarter 2006 acquisition of the remaining 45% ownership interest in a joint venture.

6. Snap-on Credit LLC Joint Venture

SOC provides a broad range of financial services to Snap-on's U.S. franchisee and customer network and to Snap-on's industrial and other customers. Snap-on receives royalty and management fee income from SOC based on the volume of financings originated by SOC. Snap-on also shares ratably with CIT in any residual net profit or loss of the joint venture after operating expenses, including royalty and management fees, interest costs and credit loss provisions. Snap-on provides extended-term financing internationally through its wholly owned finance subsidiaries.

SOC sells substantially all of its originated contracts on a limited recourse basis to CIT, net of certain fees. SOC continues to service these contracts for an estimated market-rate servicing fee. SOC originated contracts totaling $101.5 million and $320.8 million during the three and nine month periods ended September 30, 2006, as compared to $103.6 million and $305.9 million during the three and nine month periods ended October 1, 2005.

Snap-on has credit risk exposure for certain SOC-originated contracts with recourse provisions against Snap-on (primarily for franchisee van loans). At September 30, 2006, and December 31, 2005, $19.9 million and $19.2 million of loans, with terms ranging from six months to ten years, have a primary recourse provision to Snap-on if the loans become more than 90 days past due. The asset value of the collateral underlying these recourse loans would serve to mitigate Snap-on's loss in the event of default. The estimated fair value of the guarantees for all loan originations with recourse as of September 30, 2006, was not material.

CIT and Snap-on have agreed to lend funds to support SOC's working capital requirements on a 50/50 basis. As of September 30, 2006, and December 31, 2005, SOC owed both Snap-on and CIT $12.4 million and $3.9 million each pursuant to this agreement.

Snap-on's exposure related to SOC as of September 30, 2006, was the $12.4 million working capital loan plus the recourse obligations on certain customer financings, both discussed above.

7. Income Taxes

In October 2004 the American Jobs Creation Act of 2004 ("the AJCA") was signed into law. The AJCA created a one-time tax incentive for U.S. corporations to repatriate accumulated foreign earnings by providing a tax deduction of 85% of qualifying dividends received from foreign affiliates. In accordance with the AJCA, Snap-on planned to repatriate approximately $75 million of qualifying dividends in the second half of 2005, of which $57 million was repatriated as of the end of September 2005. The planned repatriation of approximately $75 million of qualifying dividends resulted in a U.S. income tax charge of $2.8 million in the third quarter of 2005. The company has not otherwise changed its intention to indefinitely reinvest accumulated foreign earnings, and no provision will be made for income taxes that would be payable upon the distribution of such earnings. No such repatriation of foreign earnings was provided for in 2006.

8. Exit or Disposal Activities

Snap-on recorded costs associated with exit and disposal activities of $4.3 million and $15.2 million during the three and nine month periods ended September 30, 2006, and $4.0 and $18.6 million during the three and nine month periods ended October 1, 2005.

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Exit and disposal costs:				
Cost of goods sold	$ 2.2	$ 0.8	$ 5.9	$ 2.8
Operating expenses	2.1	3.1	9.2	14.8
Financial services expenses	--	0.1	0.1	1.0
Total expense	$ 4.3	$ 4.0	$ 15.2	$ 18.6

Of the $4.3 million of costs incurred during the three month period ended September 30, 2006, $3.3 million qualified for accrual treatment. Costs associated with exit and disposal activities in 2006 primarily related to headcount reductions from (i) realignment of the franchise support structure; (ii) closure of a facility in the Netherlands; (iii) the closure and lease termination of a facility in the United States; (iv) transfer of certain production activities from Sweden to lower-cost regions and emerging markets; and (v) various management realignment actions at other Snap-on facilities.

Snap-on's exit and disposal accrual activity for the quarter ended September 30, 2006, related to the company's 2006 actions was as follows:

	Balance at July 1, 2006	Third Quarter		Balance at September 30, 2006
(Amounts in millions)		Provision	(Usage)	
Severance costs:				
Snap-on Tools Group	$ 1.3	$ 0.7	$ (0.9)	$ 1.1
Commercial and Industrial Group	0.9	1.7	(0.9)	1.7
Diagnostics and Information Group	1.3	--	(0.9)	0.4
Corporate	0.1	0.1	(0.1)	0.1
Facility consolidation or closure costs:				
Snap-on Tools Group	--	1.0	(1.0)	--
Diagnostics and Information Group	0.5	--	(0.1)	0.4
Total	$ 4.1	$ 3.5	$ (3.9)	$ 3.7

Exit and disposal accrual usage of $3.9 million during the third quarter of 2006 primarily reflects severance and related payments for the separation of employees. Since year-end 2005, Snap-on has reduced headcount by approximately 450 employees as part of its 2006 restructuring actions. The utilization of the severance costs and facility consolidation or closure costs will extend beyond 2006 primarily due to longer-term severance and lease obligations.

Snap-on's exit and disposal accrual activity for the quarter ended September 30, 2006, related to the company's 2005 actions was as follows:

	Balance at July 1, 2006	Third Quarter		Balance at September 30, 2006
(Amounts in millions)		Provision / (Reversal)	(Usage)	
Severance costs:				
Snap-on Tools Group	$ 0.2	$ 0.1	$ (0.1)	$ 0.2

Commercial and Industrial Group	0.2	--	(0.1)	0.1
Corporate	0.2	--	(0.1)	0.1
Facility consolidation or closure costs:				
Snap-on Tools Group	0.8	(0.3)	(0.1)	0.4
Total	$ 1.4	$ (0.2)	$ (0.4)	$ 0.8

Exit and disposal accrual usage of $0.4 million during the third quarter of 2006 reflects severance and related payments for the separation of employees. Snap-on anticipates that the severance cost accrual associated with its 2005 exit and disposal activities will be fully utilized by the end of 2006. The utilization of the facility consolidation or closure costs will extend beyond 2006 primarily due to longer-term lease obligations.

Snap-on expects to fund the remaining cash requirements of its exit and disposal activities with cash flows from operations and borrowings under the company's existing credit facilities. The estimated costs for the exit and disposal activities were based on management's best business judgment under prevailing circumstances. Snap-on also expects that it will incur approximately $5 million to $7 million of additional exit and disposal charges in the fourth quarter of 2006.

9. Short-Term and Long-Term Debt

Notes payable and long-term debt at September 30, 2006, and December 31, 2005, were $215.8 million and $226.5 million. Long-term debt of $198.1 million as of September 30, 2006, includes $200 million of unsecured 6.25% notes and $0.1 million of other long-term debt offset by $2.0 million related to the fair value of interest rate swaps outstanding. See Note 10 for further discussion of interest rate swaps. Notes payable to banks under uncommitted lines of credit were $5.3 million at September 30, 2006, and $20.9 million at December 31, 2005. Amounts payable by SOC to CIT to support SOC's working capital requirements were $12.4 million at September 30, 2006, and $3.9 million at December 31, 2005. See Note 6 for further discussion of SOC.

At September 30, 2006, Snap-on had a $400 million multi-currency revolving credit facility that terminates on July 27, 2009. The $400 million multi-currency revolving credit facility's financial covenant requires that Snap-on maintain a ratio of debt to the sum of total debt plus shareholders' equity of not greater than 0.60 to 1.00. As of September 30, 2006, Snap-on believes that it was in compliance with all covenants of this revolving credit facility.

At September 30, 2006, Snap-on also had $20 million of unused committed bank lines of credit, of which $10 million expires on July 29, 2007, and $10 million expires on August 31, 2007. At September 30, 2006, Snap-on had approximately $420 million of unused available debt capacity under the terms of its revolving credit facility and committed bank lines of credit.

In August 2001, Snap-on issued $200 million of unsecured notes pursuant to a $300 million shelf registration. The August 2001 notes require semi-annual interest payments at the rate of 6.25% and mature in their entirety on August 15, 2011.

10. Financial Instruments

Snap-on uses derivative instruments to manage well-defined interest rate and foreign currency exposures. Snap-on does not use derivative instruments for speculative or 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. On the date a derivative contract is entered into, Snap-on designates the derivative as a fair value hedge, a cash flow hedge, a hedge of a net investment in a foreign operation, or a natural hedging instrument whose change in fair value is recognized as an economic hedge against changes in the values of the hedged item.

Foreign Currency Derivative Instruments: Snap-on has operations in a number of countries that have transactions outside their functional currencies and, as a result, is exposed to changes in foreign currency exchange rates. Snap-on also has intercompany loans to foreign subsidiaries denominated in foreign currencies. Snap-on manages most of these exposures on a consolidated basis, which allows for netting of certain exposures to take advantage of natural offsets. Forward exchange contracts are used to hedge the net exposures. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates.

At September 30, 2006, Snap-on had $33.1 million of net foreign exchange forward buy contracts outstanding comprised of net buy contracts of $60.7 million in Swedish kronor, $10.4 million in Australian dollars, $4.1 million in other currencies, and net sell contracts of $23.9 million in euros, $8.2 million in Canadian dollars, $5.4 million in British Pounds and $4.6 million in other currencies. At December 31, 2005, Snap-on had $38.4 million of net foreign exchange forward buy contacts outstanding comprised of net buy contracts of $50.6 million in Swedish kronor, $3.3 million in Australian dollars and $3.0 million in other currencies, and net sell contracts of $8.4 million in euros, $5.6 million in Singapore dollars and $4.5 million in other currencies.

The majority of Snap-on's forward exchange contracts are not designated as hedges under SFAS No. 133. The fair value changes of these contracts are reported in earnings as foreign exchange gain or loss, which is included in "Other income (expense) – net" on the accompanying Consolidated Statements of Earnings.

Interest Rate Swap Agreements: Snap-on enters into interest rate swap agreements to manage interest costs and risks associated with changing interest rates. Interest rate swap agreements are accounted for as either cash flow hedges or fair value hedges. The differentials paid or received on interest rate swap agreements are recognized as adjustments to interest expense. For fair value hedges, the effective portion of the change in fair value of the derivative is recorded in “Long-term debt” on the accompanying Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to “Interest Expense” on the accompanying Consolidated Statements of Earnings. For cash flow hedges, the effective portion of the change in fair value of the derivative is recorded in “Accumulated other comprehensive income (loss),” on the accompanying Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to interest expense. The notional amount of interest rate swaps outstanding and designated as fair value hedges was $50 million at both September 30, 2006, and December 31, 2005.

Changes in the fair value of derivative financial instruments qualifying for hedge accounting are reflected as derivative assets or liabilities with the corresponding gains or losses reflected in earnings in the period of change. An offsetting gain or loss is also reflected in earnings based upon the changes of the fair value of the debt instrument being hedged. For all fair value hedges qualifying for hedge accounting, the net accumulated derivative loss at September 30, 2006, was $2.0 million. At September 30, 2006, the maximum maturity date of any fair value hedge was five years. During the third quarter of 2006, cash flow hedge and fair value hedge ineffectiveness was not material.

11. Pension Plans

Snap-on’s net pension expense included the following components:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Service cost	$ 5.7	$ 5.5	$ 17.1	$ 16.3
Interest cost	11.8	11.3	35.3	33.8
Expected return on assets	(15.3)	(14.2)	(45.7)	(42.6)
Amortization of:				
Actuarial loss	2.9	2.6	8.7	7.8
Prior service cost	0.3	0.4	0.9	1.2
Net transition asset	--	(0.1)	(0.1)	(0.3)
Net pension expense	$ 5.4	$ 5.5	$ 16.2	$ 16.2

Snap-on expects to make contributions to its foreign pension plans throughout 2006 of approximately $6 million. Snap-on is not required to make a contribution to its domestic pension plans in 2006. However, depending on market and other conditions, Snap-on may elect to make a discretionary cash contribution to its domestic pension plans in 2006.

12. Retiree Health Care

Snap-on’s net postretirement health care benefits expense included the following components:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Service cost	$ 0.1	$ 0.2	$ 0.4	$ 0.5
Interest cost	1.1	1.2	3.2	3.6
Amortization of unrecognized net gain	(0.3)	--	(0.9)	--
Amortization of prior service cost	(0.1)	--	(0.3)	--
Net postretirement expense	$ 0.8	$ 1.4	$ 2.4	$ 4.1

13. Stock-Based Compensation

Effective January 1, 2006, the company adopted SFAS No. 123(R) using the modified prospective method. SFAS No. 123(R) requires entities to recognize the cost of employee services in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). That cost, based on the estimated number of awards that are expected to vest, will be recognized over the period during which the employee is required to provide the service in exchange for the award. No compensation cost is recognized for awards for which employees do not render the requisite service. Upon adoption, the grant-date fair value of employee share options and similar instruments was estimated using the Black-Scholes option valuation model.

Compensation cost for the unvested portions of equity-classified awards granted prior to January 1, 2006, will be recognized in the results of operations over the remaining vesting periods. Changes in fair value of unvested liability instruments during the requisite service period will be recognized as compensation cost over that service period. Changes in the fair value of vested liability instruments during the contractual term will be recognized as an adjustment to compensation cost in the period of the change in fair value.

Snap-on elected to adopt the alternative method of calculating the historical pool of windfall tax benefits as permitted by FASB Staff Position No. FAS123(R)-3, "*Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*." This is a simplified method to determine the pool of windfall tax benefits that is used in determining the tax effects of stock compensation in the results of operations and cash flow reporting for awards that were outstanding as of the adoption of SFAS No. 123(R). The realization of tax benefits from stock-based compensation in excess of amounts recognized for financial reporting purposes is recognized as a financing activity in the accompanying Consolidated Statements of Cash Flows.

Due to the prospective adoption of SFAS No. 123(R), results for prior periods have not been restated. Snap-on has stock-based compensation plans under which directors, officers and other eligible employees receive stock options and other equity-based awards.

2001 Incentive Stock and Awards Plan, as Amended ("2001 Plan")

The 2001 Plan, which was approved by shareholders in 2001 and amended and approved by shareholders in 2006, provides for the grant of stock options, stock appreciation rights, performance share awards and restricted stock awards. Stock options and restricted stock awards have also been issued to non-employee directors for their services as directors. As of September 30, 2006, the 2001 Plan has 4,151,446 shares available for future grants. Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and franchisee stock purchase plans, stock options, and other corporate purposes, as well as to repurchase shares when market conditions are favorable.

The compensation cost for the 2001 Plan was $4.8 million and $11.7 million for the three and nine month periods ended September 30, 2006. The company recorded $0.5 million of income and $1.3 million of expense related to stock appreciation rights, performance share awards and restricted stock awards that were valued using the intrinsic method under Accounting Principles Board ("APB") Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related interpretations for the three and nine month periods ended October 1, 2005. Cash received from option exercises under all share-based payment arrangements during the three and nine month periods ended September 30, 2006, was $28.3 million and $74.3 million as compared with $7.7 million and $19.4 million for the three and nine month periods ended October 1, 2005. The tax benefit realized from the exercise of the share-based payment arrangements were $2.9 million and $9.2 million for the three and nine month periods ended September 30, 2006, as compared with $0.7 million and $1.6 million for the three and nine month periods ended October 1, 2005.

Stock Options

Stock options are granted with an exercise price equal to the market value of a share of common stock on the date of grant. Except for grants to non-employee directors, which vest immediately, awards generally vest within two years of continuous service and have ten-year contractual terms from the date of grant. The stock option awards granted during the first nine months of 2006 vest in two annual increments beginning on the first anniversary following the grant date of the award.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model. The company uses historical data regarding stock option exercise behaviors for different participating groups to estimate the expected term of options granted (based on the period of time that options granted are expected to be outstanding). Expected volatility is based on the historical volatility of the company's stock for the length of time corresponding to the expected term of the option. The expected dividend yield is based on the company's historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve on the grant date for the expected term of the option. The following weighted-average assumptions were used in calculating the fair value of stock options granted during the nine month periods ended September 30, 2006, and the three and nine-month periods ended October 1, 2005, using the Black-Scholes option valuation model. No stock options were granted in the three month period ended September 30, 2006.

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Expected term of option *(in years)*	N/A	6.92	7.20	7.13
Expected volatility factor	N/A	29.53%	29.19%	30.16%
Expected dividend yield	N/A	3.29%	3.23%	3.40%
Risk-free interest rate	N/A	4.17%	4.59%	4.08%

N/A = Not applicable

A summary of stock option activity as of and for the nine month period ended September 30, 2006, is presented below:

	Shares (in millions)	Exercise Price Per Share (*)	Remaining Contractual Term (*) (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2005	5.0	$ 31.44		
Granted	0.6	39.33		
Exercised	(2.3)	30.32		
Forfeited or expired	(0.1)	36.32		
Outstanding at September 30, 2006	3.2	33.46	6.03	$ 35.7
Exercisable at September 30, 2006	2.4	32.12	4.93	29.3

(*) Weighted-average

The weighted-average grant-date fair value of options granted during the nine month period ended September 30, 2006 was $10.57. The weighted-average grant-date fair value of options granted during the three and nine month periods ended October 1, 2005 was $9.00 and $8.69. The intrinsic value of options exercised during the nine month periods ended September 30, 2006, and October 1, 2005, was $23.8 million and $4.2 million. The fair value of stock options vested during the first nine month periods ended September 30, 2006, and October 1, 2005, was $3.8 million and $3.9 million.

As of September 30, 2006, there was $4.9 million of unrecognized compensation cost related to non-vested stock option compensation arrangements granted under the 2001 Plan. That cost is expected to be recognized as a charge to earnings over a weighted-average period of 1.2 years.

Performance Awards

Performance awards granted under the 2006 long-term incentive award plan are earned over a contractual term of three years. Vesting of the performance awards under the 2006 plan will be dependent upon performance relative to pre-defined goals for revenue growth and return on assets for the years 2006 through 2008. Based on Snap-on's performance relative to these goals, the recipient can earn up to 100% of the performance awards. For performance achieved above a certain level, the recipient may earn cash awards in addition to the performance awards, not to exceed 50% of the number of performance awards initially granted. Cash awards related to the 2006 restricted performance shares represent the right to receive cash of $39.35 per unit, which was the fair market value of the performance awards at the date of grant.

Performance awards granted under the 2005 long-term incentive award plan are earned over a contractual term of three years. Vesting of the performance awards will be dependent upon performance relative to pre-defined goals for revenue growth and return on assets for the years 2005 through 2007. Based on Snap-on's performance relative to these goals, the recipient can earn up to 100% of the performance awards with an equal number of cash units that represent the right to receive cash of $31.73 per unit. For performance achieved above a certain level, the recipient may earn additional cash units, not to exceed 100% of the number of performance awards initially awarded. The additional cash units also represent the right to receive cash of $31.73 per unit, which was the fair market value of the performance awards at the date of grant.

The fair value of each performance award is estimated on the date of grant using the Black-Scholes option valuation model. The company uses the vesting period of the performance awards as the expected term of options granted. Expected volatility is based on the historical volatility of the company's stock for the length of time corresponding to the expected term of the performance award. The expected dividend yield is based on the company's historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve on the grant date for the length of time corresponding to the expected term of the performance award. The following weighted-average assumptions were used in calculating the fair value of performance awards granted during the nine month periods ended September 30, 2006, and October 1, 2005, using the Black-Scholes option valuation model. No performance awards were granted in the three month periods ended September 30, 2006, and October 1, 2005.

	Nine Months Ended	
	September 30, 2006	October 1, 2005
Expected term of performance award *(in years)*	3.0	3.0
Expected volatility factor	20.54%	25.37%
Expected dividend yield	3.23%	3.40%
Risk-free interest rate	4.67%	3.91%

The weighted-average grant-date fair value of performance awards granted during the nine month period ended September 30, 2006, was $35.74 and $28.69 for the nine month period ended October 1, 2005. As performance share awards vest only at the end of the performance-award period, no shares vested or were exercised during the three and nine month periods ended September 30, 2006, or October 1, 2005.

A summary of the status of the company's non-vested performance share awards as of September 30, 2006, and changes during the nine month period ended September 30, 2006, is as follows:

	Shares *(in millions)*	Grant-Date Fair Value (*)
Non-vested performance awards at December 31, 2005	0.1	$ 28.69
Granted	0.3	35.74
Vested	--	--
Forfeited or expired	--	--
Non-vested performance awards at September 30, 2006	0.4	33.54

(*) Weighted-average

As of September 30, 2006, there was $7.5 million of unrecognized compensation cost related to non-vested performance share awards granted under the 2001 Plan. That cost is expected to be recognized as a charge to earnings over a weighted-average period of 2.1 years.

Stock Appreciation Rights ("SARs")

The company also issues SARs to certain key non-U.S. employees. SARs are granted with an exercise price equal to the market value of a share of common stock on the date of grant and have a contractual term of ten years and vest in two annual increments beginning on the first anniversary following the grant date of the award. SARs provide for the cash payment of the excess of the fair market value of Snap-on's common stock price on the date of exercise over the grant price. SARs have no effect on dilutive shares or shares outstanding as any appreciation of Snap-on's common stock value over the grant price is paid in cash and not in common stock.

The fair value of each SAR is remeasured each reporting period using the Black-Scholes option valuation model. The company uses historical data regarding SARs exercise behaviors for different participating groups to estimate the expected term of the SARs granted based on the period of time that similar instruments granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company's stock for the length of time corresponding to the expected term of the stock appreciation right. The expected dividend yield is based on the company's historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve in effect on the grant date for the length of time corresponding to the expected term of the SARs. The following weighted-average assumptions were used in calculating the fair value of SARs granted during the nine month periods ended September 30, 2006, and October 1, 2005, using the Black-Scholes option valuation model. No SARs were granted in the three month periods ended September 30, 2006, and October 1, 2005.

	Nine Months Ended	
	September 30, 2006	October 1, 2005
Expected term of SARs *(in years)*	6.57	3.95
Expected volatility factor	27.43%	22.19%
Expected dividend yield	3.21%	3.21%
Risk-free interest rate	4.59%	4.62%

The total intrinsic value of SARs exercised during the three and nine month periods ended September 30, 2006, was $0.2 million and $1.6 million, and $0.4 million and $1.1 million during the three and nine month periods ended October 1, 2005. The total fair value of SARs vested during the nine month period ended September 30, 2006, was $0.9 million, and $1.2 million during the nine month period ended October 1, 2005.

A summary of the status of the company's non-vested SARs as of September 30, 2006, and changes during the nine month period ended September 30, 2006, is as follows:

	Shares *(in millions)*	Fair Value (*)
Non-vested SARs at December 31, 2005	--	$ --
Granted	0.1	12.83
Vested	--	--
Forfeited or expired	--	--
Non-vested SARs at September 30, 2006	0.1	12.85

(*) Weighted-average

As of September 30, 2006, there was $1.1 million of unrecognized compensation cost related to non-vested SARs granted under the 2001 Plan. That cost is expected to be recognized as a charge to earnings over a weighted-average period of 1.5 years.

Restricted Stock Awards

The company granted 17,613 restricted stock awards to members of the Board of Directors during the second quarter ended July 1, 2006; no restricted stock awards were granted during the third quarter ended September 30, 2006. No restricted stock awards were granted during the three and nine month periods ended October 1, 2005. All restrictions will lapse upon the recipient's retirement from the Board of Directors, death or a change in control.

Other Stock-based Compensation Plans

The company has other stock-based compensation plans that include the directors' fee plan, employee stock purchase plan, franchisee stock purchase plan, and the dividend reinvestment and stock purchase plan. The impact of SFAS No. 123(R) on, and the activity in, these plans was not significant.

Fair Value Disclosures – Prior to Adoption of SFAS No. 123(R)

Prior to January 1, 2006, the company accounted for its share-based instruments under the recognition and measurement provisions of APB Opinion No. 25 and related interpretations. No stock-based employee compensation costs related to stock options were recognized prior to 2006. The following table illustrates the effect on net earnings and earnings per share for the three and nine month periods ended October 1, 2005, as if Snap-on had applied the fair value recognition provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation,*" to stock-based employee compensation using the Black-Scholes option valuation model:

	October 1, 2005	
(Amounts in millions, except per share data)	Three Months Ended	Nine Months Ended
Net earnings, as reported	$ 21.0	$ 65.5
Adjustments to net earnings, as reported:		
Stock-based employee compensation expense (income) included in reported net income, net of related tax effects	(0.5)	1.3
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(0.6)	(3.4)
Pro forma net earnings	$ 19.9	$ 63.4
Net earnings per share - basic:		
As reported	$ 0.36	$ 1.13
Pro forma	0.34	1.10
Net earnings per share - diluted:		
As reported	$ 0.36	$ 1.12
Pro forma	0.34	1.09

14. Earnings Per Share

The shares used in the computation of the company's basic and diluted earnings per common share are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Weighted-average common shares outstanding	58,184,570	57,893,182	58,197,865	57,808,629
Dilutive effect of employee stock options	596,071	724,634	879,213	599,871
Weighted-average common shares outstanding, assuming dilution	58,780,641	58,617,816	59,077,078	58,408,500

The dilutive effect of the potential exercise of outstanding options to purchase common shares is calculated using the treasury stock method. Options to purchase 23,000 shares and 607,692 shares of Snap-on common stock were not included in the computation of diluted earnings per share for the three months ended September 30, 2006, and October 1, 2005, as the exercise prices of the options were greater than the average market price of the common stock for the respective periods and the effect on earnings per share would be anti-dilutive. Options to purchase 23,000 shares and 1,132,390 shares of Snap-on common stock were not included in the computation of diluted earnings per share for the nine months ended September 30, 2006, and October 1, 2005, as the exercise prices of the options were greater than the average market price of the common stock for the respective periods and the effect on earnings per share would be anti-dilutive.

15. Comprehensive Income

Total comprehensive income for the three and nine month periods ended September 30, 2006, and October 1, 2005, was as follows:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net earnings	$ 28.2	$ 21.0	$ 62.1	$ 65.5
Foreign currency translation	10.4	2.3	48.5	(84.6)
Minimum pension liability	(0.3)	--	(0.3)	--
Change in fair value of derivative instruments, net of tax	0.2	(0.2)	--	(0.7)
Total comprehensive income	$ 38.5	$ 23.1	$ 110.3	$ (19.8)

16. Commitments and Contingencies

Snap-on provides product warranties for specific product lines and accrues for estimated future warranty cost in the period in which the sale is recorded. Snap-on calculates its reserve requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience. The following summarizes Snap-on's product warranty accrual activity for the three and nine month periods ended September 30, 2006, and October 1, 2005:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Warranty reserve:				
Beginning of period	$ 18.7	$ 16.6	$ 16.8	$ 15.7
Additions	3.1	4.0	12.3	10.2
Usage	(4.2)	(3.8)	(11.5)	(9.1)
End of period	$ 17.6	$ 16.8	$ 17.6	$ 16.8

On May 16, 2006, Snap-on disclosed that it had reached an agreement to settle certain legal matters related to certain then current and former franchisees on a class basis. The settlement contains provisions that allow Snap-on to terminate the settlement agreement if more than a specified percentage of certain franchisees elect to opt out of the class; based on the level of opt outs as of the date of this Form 10-Q, those percentages will not be exceeded. The terms of the settlement are subject to final court approval, as well as other usual and customary conditions. The court's review and possible final approval of the proposed settlement, absent any appeal, are expected to occur in the fourth quarter of 2006. In connection with the resolution of this matter, Snap-on expects to pay an estimated $38.0 million to the claimants, including attorneys' fees, costs and expenses. This amount is subject to change depending on the actual number of claimants and the funds paid out as a result of the payment formulas included in the agreement.

Snap-on is also involved in various other legal matters that are being litigated and/or settled in the ordinary course of business. Although it is not possible to predict the outcome of these other legal matters, management believes that the results will not have a material impact on Snap-on's consolidated financial position or results of operations.

17. Segments

Snap-on's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. In the first quarter of 2006, the company changed the name of the Snap-on Dealer Group segment to the Snap-on Tools Group. The organization structure used by management has not changed and the segment name change did not impact previously disclosed segment net sales, operating earnings, identifiable assets or other amounts or disclosures. Snap-on's reportable business segments include: (i) the Snap-on Tools Group (formerly the Snap-on Dealer Group); (ii) the Commercial and Industrial Group; (iii) the Diagnostics and Information Group; and (iv) Financial Services. The Snap-on Tools Group consists of Snap-on's business operations serving the worldwide franchise van channel. The Commercial and Industrial Group consists of the business operations providing tools and equipment products and equipment repair services to a broad range of industrial and commercial customers worldwide through direct, distributor and other non-franchised distribution channels. The Diagnostics and Information Group consists of the business operations providing diagnostics equipment, vehicle-service information, business management systems, and other solutions for vehicle service to customers in the worldwide vehicle service and repair marketplace. Financial Services consists of the business operations of SOC, a consolidated 50%-owned joint venture between Snap-on and CIT, and Snap-on's wholly owned finance subsidiaries in those international markets where Snap-on has franchisee operations. See Note 6 for further discussion of SOC.

Snap-on evaluates the performance of its operating segments based on segment revenues and operating earnings. For the Snap-on Tools, Commercial and Industrial, and Diagnostics and Information Groups, segment net sales include both external and intersegment net sales. Snap-on accounts for intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Segment operating results for the Snap-on Tools Group for the nine month period ended September 30, 2006, includes the impact of the $38.0 million estimated charge recorded in the second quarter of 2006 for the resolution of the pending litigation settlement. See Note 16 for further discussion of the pending litigation settlement. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Intersegment amounts are eliminated to arrive at consolidated financial results.

Neither Snap-on nor any of its segments, except Financial Services, depend on any single customer, small group of customers or government for more than 10% of its revenues. As a result of SOC's relationship with CIT, Snap-on's Financial Services business segment depends on CIT for more than 10% of its revenues. See Note 6 for further discussion of SOC.

Financial data by segment was as follows:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net sales:				
Snap-on Tools Group	$ 243.9	$ 244.8	$ 763.4	$ 761.2
Commercial and Industrial Group	287.0	262.4	874.2	851.0
Diagnostics and Information Group	131.7	100.4	379.8	332.0
Segment net sales	662.6	607.6	2,017.4	1,944.2
Intersegment eliminations	(63.1)	(53.5)	(200.0)	(199.0)
Total net sales	$ 599.5	$ 554.1	$ 1,817.4	$ 1,745.2
Financial services revenue	11.3	13.1	34.2	43.4
Total revenues	$ 610.8	$ 567.2	$ 1,851.6	$ 1,788.6
Operating earnings:				
Snap-on Tools Group	$ 15.7	$ 20.1	$ 22.4	$ 61.6
Commercial and Industrial Group	23.3	17.8	74.0	46.7
Diagnostics and Information Group	16.5	11.8	40.6	34.8
Financial Services	3.0	3.6	8.0	12.9
Segment operating earnings	58.5	53.3	145.0	156.0
Corporate	(12.3)	(10.5)	(39.3)	(31.6)
Operating earnings	$ 46.2	$ 42.8	$ 105.7	$ 124.4

Interest expense	(4.5)	(5.6)	(13.6)	(17.1)
Other income (expense) - net	1.3	(0.5)	0.4	(2.2)
Earnings before income taxes	$ 43.0	$ 36.7	$ 92.5	$ 105.1

(Amounts in millions)	September 30, 2006	December 31, 2005
Assets:		
Snap-on Tools Group	$ 419.7	$ 415.9
Commercial and Industrial Group	963.9	916.3
Diagnostics and Information Group	226.9	195.4
Financial Services	149.3	149.0
Total assets from reportable segments	$ 1,759.8	$ 1,676.6
Corporate	438.2	362.0
Elimination of intersegment receivables	(28.5)	(30.2)
Total assets	$ 2,169.5	$ 2,008.4

18. Subsequent Event

On October 23, 2006, the company announced that it had signed a definitive agreement to acquire ProQuest Business Solutions from ProQuest Company (NYSE: PQE) for approximately $480 million in cash plus the assumption of $19 million of debt. ProQuest Business Solutions is a world leader of automotive parts and service information that are used by over 33,000 dealerships worldwide. ProQuest Business Solutions had sales of approximately $182 million during the year ended December 31, 2005. The transaction is subject to customary closing conditions, which are set forth in the definitive agreement included with the company's Form 8-K filing dated October 23, 2006, and regulatory approvals, including expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The transaction is expected to close by the end of November 2006 and is not subject to any financing conditions. Subject to certain exceptions, either party may terminate the agreement if it does not close by December 28, 2006.

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

Forward-Looking Statement:

Statements in this document that are not historical facts, including statements (i) that include the words "expects,""plans," "targets," "estimates," "believes,""anticipates," or similar words that reference Snap-on or its management; (ii) specifically identified as forward-looking; or (iii) describing Snap-on's or management's future outlook, plans, estimates, objectives or goals, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Snap-on cautions the reader that any forward-looking statements included in this document that are based upon assumptions and estimates were developed by management in good faith and are subject to risks, uncertainties or other factors that could cause (and in some cases have caused) actual results to differ materially from those described in any such statement. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results or regarded as a representation by the company or its management that the projected results will be achieved. For those forward-looking statements, Snap-on cautions the reader that numerous important factors, such as those listed below, as well as the risk factors discussed in Snap-on's Form 10-K filing dated February 21, 2006, its Form 10-Q filing dated July 26, 2006, and in its Form 8-K filing dated July 27, 2005, all of which are incorporated herein by reference, and Snap-on's and ProQuest Company's ability to complete all conditions to the closing of Snap-on's acquisition of ProQuest Business Solutions, including receipt of all regulatory approvals, and Snap-on's ability to successfully integrate the ProQuest Business Solutions business, could affect the company's actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, Snap-on.

These risks and uncertainties include, without limitation, uncertainties related to estimates, statements, assumptions and projections generally, and the timing and progress with which Snap-on can attain savings from cost reduction actions, including its ability to implement reductions in workforce, achieve improvements in its manufacturing footprint and greater efficiencies in its supply chain, and enhance machine maintenance, plant productivity and manufacturing line set-up and change-over practices, any or all of which could result in production inefficiencies, higher cost and lost revenues. These risks also include uncertainties related to Snap-on's capability to implement future strategies with respect to its existing businesses, refine its brand and franchise strategies, retain and attract franchisees, further enhance service and value to franchisees and thereby enhance their sales and profitability, introduce successful new products, as well as its ability to withstand disruption arising from natural disasters, planned facility closures or other labor interruptions, litigation challenges and external negative factors including significant changes in the current competitive environment, inflation, interest rates and other monetary fluctuations; and the various potential impacts of legal proceedings and/or settlements, terrorist disruptions on business, and energy and raw material supply and pricing (primarily steel and fuel), including the impact of higher fuel prices on franchisees' operations. Snap-on disclaims any responsibility to update any forward-looking statement provided in this document.

RESULTS OF OPERATIONS

Highlights of Snap-on's results of operations for the third quarters of fiscal 2006 and fiscal 2005 are as follows:

	Three Months Ended					
(Amounts in millions)	September 30, 2006		October 1, 2005		Increase / (Decrease)	
Net sales	$ 599.5	100.0%	$ 554.1	100.0%	$ 45.4	8.2%
Cost of goods sold	339.3	56.6%	306.9	55.4%	32.4	10.6%
Gross profit	260.2	43.4%	247.2	44.6%	13.0	5.3%
Financial services revenue	11.3	100.0%	13.1	100.0%	(1.8)	-13.7%
Financial services expenses	8.3	73.5%	9.5	72.5%	(1.2)	-12.6%
Operating income from financial services	3.0	26.5%	3.6	27.5%	(0.6)	-16.7%
Operating expenses	217.0	36.2%	208.0	37.5%	9.0	4.3%
Operating earnings	46.2	7.6%	42.8	7.5%	3.4	7.9%
Interest expense	4.5	0.7%	5.6	0.9%	(1.1)	-19.6%
Other (income) expense - net	(1.3)	-0.1%	0.5	0.1%	1.8	NM
Earnings before income taxes	43.0	7.0%	36.7	6.5%	6.3	17.2%
Income tax expense	14.8	2.4%	15.7	2.8%	(0.9)	-5.7%
Net earnings	$ 28.2	4.6%	$ 21.0	3.7%	$ 7.2	34.3%

NM = not meaningful

Percentage Disclosure: Cost of goods sold, Gross profit and Operating expenses percentages are calculated as a percentage of Net sales. Financial services expenses and Operating income from financial services percentages are calculated as a percentage of Financial services revenue. All other income statement line item percentages are calculated as a percentage of the sum of Net sales and Financial services revenue.

Net sales in the third quarter of 2006 increased $45.4 million or 8.2% from prior-year levels primarily due to higher sales in the original equipment manufacturer ("OEM") equipment solutions business, growth in emerging markets, higher sales of equipment, and increased sales to U.S. industrial customers. Favorable currency translation contributed $8.8 million to the year-over-year sales increase.

Gross profit was $260.2 million, or 43.4% of net sales, in the third quarter of 2006, as compared to $247.2 million, or 44.6% of net sales, in the third quarter of 2005. Gross profit in 2006 increased $13.0 million from prior-year levels as benefits from increased sales and higher selling prices, as well as benefits from efficiency and productivity initiatives of $10.5 million, were partially offset by a shift in product mix that included higher sales in the OEM equipment solutions business. Gross profit in 2006 was also impacted by higher year-over-year production and material costs of $5.9 million and higher restructuring costs of $1.4 million. Restructuring costs included in "Cost of goods sold" on the accompanying Consolidated Statements of Earnings were $2.2 million in the third quarter of 2006, as compared to $0.8 million in the comparable prior-year period. Favorable currency translation contributed $3.3 million to the year-over-year increase in gross profit.

Financial services operating income was $3.0 million on $11.3 million of revenue in the third quarter of 2006, as compared with $3.6 million of operating income on $13.1 million of revenue in 2005. The decrease in operating income primarily reflects the impact of lower net interest spreads and lower originations.

Operating expenses in the third quarter of 2006 were $217.0 million, up $9.0 million as compared to $208.0 million in the third quarter of 2005. As a percentage of net sales, operating expenses improved from 37.5% in 2005 to 36.2% in 2006. The 130 basis point improvement (100 basis points equals 1.0 percent) in year-over-year operating expenses includes benefits from efficiency and productivity initiatives of $8.2 million, and lower pension, health care and other costs of $1.4 million. These improvements in operating expenses were partially offset by $9.7 million of higher stock-based and performance-based incentive compensation, including $1.4 million in costs associated with the company's January 1, 2006, adoption of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *"Share-Based Payment,"* on a prospective basis. Operating expenses in 2006 also included $6.1 million in higher costs related to the company's strategic growth initiatives and $2.7 million of unfavorable currency translation. Restructuring costs included in "Operating expenses" were $2.1 million in the third quarter of 2006, including $1.7 million related to the company's strategic growth initiatives, as compared to $3.1 million in the prior-year period. See Note 13 for additional information on the company's adoption of SFAS No. 123(R).

Interest expense of $4.5 million in the third quarter of 2006 was $1.1 million lower than prior year due to lower average debt levels, including the October 3, 2005 repayment of $100 million of unsecured 6.625% notes.

Other (income) expense – net was income of $1.3 million in the third quarter of 2006, as compared to an expense of $0.5 million in the prior year. This line item includes the impact of all non-operating items such as interest income, hedging and currency exchange rate transaction gains and losses, minority interest and other miscellaneous non-operating items. The year-over-year change in other (income) expense — net primarily reflects the impact of higher interest income and foreign exchange gains. Minority interest expense was $0.9 million in the third quarter of 2006 as compared to $0.7 million in the prior year.

Snap-on's effective tax rate was 34.5% in the third quarter of 2006 as compared with 42.8% in the third quarter of 2005. The effective tax rate of 42.8% in 2005 includes a $2.8 million charge ($0.05 per diluted share) related to the planned repatriation of accumulated foreign earnings under the American Jobs Creation Act (the "AJCA"). In accordance with the AJCA, Snap-on planned to repatriate approximately $75 million of qualifying dividends in the second half of 2005, of which $57 million was repatriated as of the end of September 2005. See Note 7 for further discussion of income taxes.

Net earnings in the third quarter of 2006 were $28.2 million as compared with net earnings of $21.0 million in 2005. Diluted earnings per share in the third quarter of 2006 were $0.48 as compared with prior-year diluted earnings of $0.36 per share.

Highlights of Snap-on's results of operations for the first nine months of fiscal 2006 and fiscal 2005 are as follows:

	Nine Months Ended					
	September 30, 2006		October 1, 2005		Increase / (Decrease)	
(Amounts in millions)						
Net sales	$ 1,817.4	100.0%	$ 1,745.2	100.0%	$ 72.2	4.1%
Cost of goods sold	1,015.9	55.9%	972.5	55.7%	43.4	4.5%
Gross profit	801.5	44.1%	772.7	44.3%	28.8	3.7%
Financial services revenue	34.2	100.0%	43.4	100.0%	(9.2)	-21.2%
Financial services expenses	26.2	76.6%	30.5	70.3%	(4.3)	-14.1%
Operating income from financial services	8.0	23.4%	12.9	29.7%	(4.9)	-38.0%
Operating expenses:						
Selling, general and administrative	665.8	36.6%	661.2	37.9%	4.6	0.7%
Litigation settlement	38.0	2.1%	--	--	38.0	NM
Total operating expenses	703.8	38.7%	661.2	37.9%	42.6	6.4%
Operating earnings	105.7	5.7%	124.4	7.0%	(18.7)	-15.0%
Interest expense	13.6	0.7%	17.1	1.0%	(3.5)	-20.5%
Other (income) expense - net	(0.4)	--	2.2	0.1%	2.6	NM
Earnings before income taxes	92.5	5.0%	105.1	5.9%	(12.6)	-12.0%
Income tax expense	30.4	1.6%	39.6	2.2%	(9.2)	-23.2%

Net earnings	$ 62.1	3.4%	$ 65.5	3.7%	$ (3.4)	-5.2%

NM = not meaningful

Percentage Disclosure: Cost of goods sold, Gross profit and Operating expenses percentages are calculated as a percentage of Net sales. Financial services expenses and Operating income from financial services percentages are calculated as a percentage of Financial services revenue. All other income statement line item percentages are calculated as a percentage of the sum of Net sales and Financial services revenue.

Net sales in the first nine months of 2006 increased $72.2 million, or 4.1%, from prior-year levels. The increase in net sales primarily includes higher sales in the OEM equipment solutions business, increased sales to commercial and industrial channels, and growth in emerging markets. These increases in net sales were partially offset by $4.6 million of unfavorable currency translation.

Gross profit was $801.5 million, or 44.1% of net sales, in the first nine months of 2006, as compared to $772.7 million, or 44.3% of net sales, in 2005. The $28.8 million increase in year-over-year gross profit primarily reflects benefits from the increased sales and higher pricing, as well as benefits from lower costs, including benefits from efficiency, productivity and cost reduction initiatives of $23.6 million. These increases in gross profit were partially offset by higher production and material costs of $15.7 million and unfavorable currency translation of $2.0 million. Restructuring costs included in "Cost of goods sold" on the accompanying Consolidated Statements of Earnings were $5.9 million in 2006, as compared to $2.8 million in the prior-year period. Financial services operating income was $8.0 million on $34.2 million of revenue in the first nine months of 2006, as compared with $12.9 million of operating income on $43.4 million of revenue in 2005. The decrease in operating income reflects the impact of lower net interest spreads, partially offset by higher originations.

Operating expenses in the first nine months of 2006 were $703.8 million, as compared to $661.2 million in the prior-year period. The $42.6 million increase in year-over-year operating expenses is primarily due to the recording of a $38.0 million estimated charge in the second quarter of 2006 related to the resolution of a pending litigation settlement. See Note 16 for information on the pending litigation settlement. Operating expenses in 2006 also included $19.2 million of higher stock-based and performance-based incentive compensation, including $5.2 million in costs associated with the company's January 1, 2006, adoption of SFAS No. 123(R), and $17.3 million in higher year-over-year costs related to the company's strategic growth initiatives. These increases in operating expenses were partially offset by benefits from efficiency and productivity initiatives of $14.6 million, as well as the absence of $3.0 million of costs incurred in the first quarter of 2005 to terminate a supplier relationship. Restructuring costs included in "Operating expenses" were $9.2 million in the first nine months of 2006, including $1.7 million related to the company's strategic growth initiatives, as compared to $14.8 million in the prior-year period. See Note 13 for additional information on the company's adoption of SFAS No. 123(R).

Interest expense of $13.6 million in the first nine months of 2006 was $3.5 million lower than prior year due to lower average debt levels, including the October 3, 2005, repayment of $100 million of unsecured 6.625% notes.

Other (income) expense – net was income of $0.4 million in the first nine months of 2006, as compared to an expense of $2.2 million in the prior year. The year-over-year change in other (income) expense – net is primarily due to $2.3 million of higher interest income. Minority interest expense for the first nine months of 2006 was $2.6 million as compared to $2.9 million in the comparable prior-year period.

Snap-on's effective tax rate was 32.9% in the first nine months of 2006, as compared with 37.7% in the prior year. The lower effective tax rate in 2006 primarily reflects the mix of U.S. and non-U.S. earnings, including the impact of the $38.0 million pretax litigation settlement charge recorded in the second quarter of 2006, which was tax effected at a higher U.S. tax rate. The higher effective tax rate in 2005 includes a $2.8 million charge related to the planned repatriation of accumulated foreign earnings under the AJCA.

Net earnings in the first nine months of 2006 were $62.1 million, including a $23.4 million after-tax charge ($38.0 million pretax or $0.40 per diluted share) related to the resolution of the pending litigation settlement, as compared with net earnings of $65.5 million in the comparable prior-year period. Diluted earnings per share in the first nine months of 2006 of $1.05 included a charge of $0.40 per share related to the resolution of the pending litigation settlement. This compares with diluted earnings per share of $1.12 in the comparable prior-year period.

Exit and Disposal Activities

For a discussion of Snap-on's exit and disposal activities, see Note 8.

Segment Results

Snap-on's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. In the first quarter of 2006, the company changed the name of the Snap-on Dealer Group segment to the Snap-on Tools Group. The organization structure used by management has not changed and the segment name change did not impact previously disclosed segment net sales, operating earnings, identifiable assets or other amounts or disclosures. Snap-on's reportable business segments include: (i) the Snap-on Tools Group; (ii) the Commercial and Industrial Group; (iii) the Diagnostics and Information Group; and (iv) Financial Services. The Snap-on Tools Group consists of Snap-on's business operations serving the worldwide franchise van channel. The Commercial and Industrial Group consists of the business operations providing tools and equipment products and equipment repair services to a broad range of industrial and commercial customers worldwide through direct, distributor and other non-franchised distribution channels. The Diagnostics and Information Group consists of the business operations providing diagnostics equipment, vehicle-service information, business management systems, and other solutions for vehicle service to customers in the worldwide vehicle service and repair marketplace. Financial Services consists of the business operations of Snap-on Credit LLC ("SOC") a consolidated, 50%-owned joint venture with the CIT

Group, Inc., and Snap-on's wholly owned finance subsidiaries in those international markets where Snap-on has franchisee operations.

Snap-on evaluates the performance of its operating segments based on segment revenues and operating earnings. For the Snap-on Tools, Commercial and Industrial, and Diagnostics and Information Groups, segment net sales include both external and intersegment sales. Snap-on accounts for intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Intersegment amounts are eliminated to arrive at consolidated financial results.

Snap-on Tools Group

	Three Months Ended					
(Amounts in millions)	September 30, 2006		October 1, 2005		Increase / (Decrease)	
Segment net sales	$ 243.9	100.0%	$ 244.8	100.0%	$ (0.9)	-0.4%
Cost of goods sold	136.7	56.0%	135.7	55.4%	1.0	0.7%
Gross profit	107.2	44.0%	109.1	44.6%	(1.9)	-1.7%
Operating expenses	91.5	37.6%	89.0	36.4%	2.5	2.8%
Segment operating earnings	$ 15.7	6.4%	$ 20.1	8.2%	$ (4.4)	-21.9%

Segment net sales in the third quarter of 2006 decreased $0.9 million from prior-year levels due to lower sales of $2.5 million partially offset by $1.6 million of favorable currency translation. A 2.1% increase in international sales, largely driven by sales growth in the U.K. and favorable currency translation, was more than offset by a 1.0% decline in North American sales. In the United States, a 3.9% year-over-year decline in the average number of franchisees during the quarter was partially offset by a 2.0% increase in average sales per franchisee. The company believes the increase in average sales per franchisee is a result of the strategic initiatives being implemented to improve the franchise system. The company anticipates that the decline in the average number of franchisees will moderate over the next several quarters.

Segment gross profit for the third quarter of 2006 was $107.2 million, down $1.9 million from prior-year levels. The decline in year-over-year gross profit primarily reflects the lower sales volume and the impact of a less favorable mix, and $3.4 million of higher production and material costs. These declines in gross profit were partially offset by $6.1 million of benefits from efficiency and productivity initiatives. Operating expenses increased $2.5 million in 2006 primarily due to $5.5 million of higher planned spending to support strategic supply chain and franchise system initiatives, including $1.7 million of restructuring-related costs. These increases in operating expenses were partially offset by $2.5 million of benefits from cost reduction initiatives, and lower pension, health care and other costs. As a result of these factors, segment operating earnings in the third quarter of 2006 declined $4.4 million from prior-year levels.

	Nine Months Ended					
(Amounts in millions)	September 30, 2006		October 1, 2005		Increase / (Decrease)	
Segment net sales	$ 763.4	100.0%	$ 761.2	100.0%	$ 2.2	0.3%
Cost of goods sold	422.8	55.4%	418.5	55.0%	4.3	1.0%
Gross profit	340.6	44.6%	342.7	45.0%	(2.1)	-0.6%
Operating expenses:						
Selling, general and administrative	280.2	36.7%	281.1	36.9%	(0.9)	-0.3%
Litigation settlement	38.0	5.0%	--	--	38.0	NM
Total operating expenses	318.2	41.7%	281.1	36.9%	37.1	13.2%
Segment operating earnings	$ 22.4	2.9%	$ 61.6	8.1%	$ (39.2)	-63.6%

Segment net sales in the first nine months of 2006 increased $2.2 million from prior-year levels reflecting higher sales of $2.9 million partially offset by $0.7 million of unfavorable currency translation. Sales in North America were up slightly year over year, while international sales increases were more than offset by unfavorable currency translation.

Segment gross profit for the first nine months of 2006 was $340.6 million, down slightly from $342.7 million in the prior year. The $2.1 million decline in year-over-year gross profit primarily reflects higher production, material and other costs, partially offset by higher sales volume and selling prices, and lower costs of $11.4 million from efficiency and productivity initiatives. Operating expenses in 2006 were $318.2 million, up $37.1 million from prior-year levels, primarily due to the $38.0 million estimated charge recorded in the second quarter of 2006 for the resolution of a pending litigation settlement. Operating expenses also increased due to higher costs of $11.1 million, including $1.7 million of restructuring-related costs, to support strategic supply chain and franchise system initiatives. These increases in operating expenses were largely offset by $5.5 million of benefits from cost reduction initiatives and the absence of $3.0 million of costs incurred in the first quarter of 2005 to terminate a supplier relationship. As a result of these factors, segment operating earnings for the first nine months of 2006 declined $39.2 million from prior-year levels.

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

Commercial and Industrial Group

	Three Months Ended					
	September 30, 2006		October 1, 2005		Increase / (Decrease)	
(Amounts in millions)						
External net sales	$ 254.4	88.6%	$ 237.9	90.7%	$ 16.5	6.9%
Intersegment net sales	32.6	11.4%	24.5	9.3%	8.1	33.1%
Segment net sales	287.0	100.0%	262.4	100.0%	24.6	9.4%
Cost of goods sold	183.5	63.9%	167.8	63.9%	15.7	9.4%
Gross profit	103.5	36.1%	94.6	36.1%	8.9	9.4%
Operating expenses	80.2	28.0%	76.8	29.3%	3.4	4.4%
Segment operating earnings	$ 23.3	8.1%	$ 17.8	6.8%	$ 5.5	30.9%

In the third quarter of 2006, segment net sales increased $24.6 million, or 9.4%, from prior-year levels primarily due to growth in emerging markets, higher worldwide sales of under-car equipment products, increased sales to U.S. industrial customers, and higher sales of power tools in the United States. Currency translation contributed $6.1 million to the sales increase.

Segment gross profit for the third quarter of 2006 was $103.5 million, up $8.9 million over prior-year levels. The improvement in gross profit primarily reflects benefits from increased sales and higher pricing, savings of $3.3 million from ongoing cost reduction, including benefits from prior restructuring actions and strategic efforts to increase production and sourced materials from lower-cost regions and facilities, and favorable currency translation of $2.2 million. These improvements in gross profit were partially offset by manufacturing cost increases of $1.9 million and higher restructuring costs of $1.4 million. In the third quarter of 2006, operating expenses of $80.2 million improved 130 basis points as a percentage of segment sales from 2005 levels. The $3.4 million increase in operating expenses primarily includes higher volume-related expenses, $1.4 million of increased strategic spending to expand Snap-on's sales, distribution and manufacturing presence in emerging markets and lower-cost regions, and $1.8 million of unfavorable currency translation. These increases in operating expenses were partially offset by $1.8 million of savings from ongoing cost reduction and continuous improvement actions. As a result of these factors, segment operating earnings in the third quarter of 2006 improved $5.5 million, or 30.9%, as compared with the prior year.

	Nine Months Ended					
	September 30, 2006		October 1, 2005		Increase / (Decrease)	
(Amounts in millions)						
External net sales	$ 770.2	88.1%	$ 754.7	88.7%	$ 15.5	2.1%
Intersegment net sales	104.0	11.9%	96.3	11.3%	7.7	8.0%
Segment net sales	874.2	100.0%	851.0	100.0%	23.2	2.7%
Cost of goods sold	555.1	63.5%	556.6	65.4%	(1.5)	-0.3%
Gross profit	319.1	36.5%	294.4	34.6%	24.7	8.5%
Operating expenses	245.1	28.0%	247.7	29.1%	(2.6)	-1.0%
Segment operating earnings	$ 74.0	8.5%	$ 46.7	5.5%	$ 27.3	58.5%

Segment net sales in the first nine months of 2006 increased $23.2 million from prior-year levels due to $26.8 million of higher sales partially offset by $3.6 million of unfavorable currency translation. The $26.8 million sales increase primarily reflects growth in emerging markets and increased sales of tools for U.S. commercial and industrial applications.

Segment gross profit for the first nine months of 2006 was $319.1 million, up $24.7 million, or 190 basis points as a percentage of segment sales, over prior-year levels. The improvement in year-over-year gross profit primarily reflects benefits from increased sales of higher margin products and improved pricing, as well as $11.3 million of savings from productivity and efficiency initiatives, including strategic efforts to increase production and sourced materials from lower-cost regions and facilities. These improvements in gross profit were partially offset by $3.8 million of higher material and production costs, $2.0 million of unfavorable currency translation, and $1.8 million of higher restructuring costs. Operating expenses decreased $2.6 million or 110 basis points as a percentage of segment sales. The decrease in operating expenses primarily includes $6.5 million of benefits from efficiency and productivity initiatives, $3.2 million of lower restructuring costs, and $1.4 million of favorable currency translation. These improvements in operating expenses were partially offset by higher planned volume-related expenses and $5.1 million of higher spending to support the expansion of our sales and manufacturing presence in emerging growth markets and lower-cost regions. As a result of these factors, segment operating earnings in the first nine months of 2006 increased $27.3 million as compared with the prior year.

Diagnostics and Information Group

	Three Months Ended					
	September 30, 2006		October 1, 2005		Increase / (Decrease)	
(Amounts in millions)						
External net sales	$ 101.2	76.8%	$ 71.4	71.1%	$ 29.8	41.7%
Intersegment net sales	30.5	23.2%	29.0	28.9%	1.5	5.2%
Segment net sales	131.7	100.0%	100.4	100.0%	31.3	31.2%
Cost of goods sold	82.2	62.4%	56.9	56.7%	25.3	44.4%
Gross profit	49.5	37.6%	43.5	43.3%	6.0	13.8%
Operating expenses	33.0	25.1%	31.7	31.5%	1.3	4.1%
Segment operating earnings	$ 16.5	12.5%	$ 11.8	11.8%	$ 4.7	39.8%

Segment net sales in the third quarter of 2006 increased $31.3 million, or 31.2%, from prior-year levels largely due to higher sales in the OEM equipment solutions business and increased sales of handheld diagnostics and information products.

Segment gross profit of $49.5 million for the third quarter of 2006 increased $6.0 million from prior-year levels primarily driven by higher sales and $1.2 million of savings from improved productivity and previous cost reduction initiatives, partially offset by a shift in product mix that included higher sales (and lower relative gross margin) in the OEM equipment solutions business. Operating expenses of $33.0 million in 2006 increased slightly from prior-year levels primarily due to higher volume-related expenses and $0.9 million of increased spending to support strategic growth initiatives. As a result of these factors, segment operating earnings in the third quarter of 2006 increased $4.7 million as compared with the prior year.

	Nine Months Ended					
	September 30, 2006		October 1, 2005		Increase / (Decrease)	
(Amounts in millions)						
External net sales	$ 283.8	74.7%	$ 229.3	69.1%	$ 54.5	23.8%
Intersegment net sales	96.0	25.3%	102.7	30.9%	(6.7)	-6.5%
Segment net sales	379.8	100.0%	332.0	100.0%	47.8	14.4%
Cost of goods sold	238.0	62.7%	196.4	59.2%	41.6	21.2%
Gross profit	141.8	37.3%	135.6	40.8%	6.2	4.6%
Operating expenses	101.2	26.6%	100.8	30.3%	0.4	0.4%
Segment operating earnings	$ 40.6	10.7%	$ 34.8	10.5%	$ 5.8	16.7%

Segment net sales in the first nine months of 2006 increased $47.8 million, or 14.4%, from prior-year levels largely due to higher sales in the OEM equipment solutions business and increased sales of information products.

Segment gross profit for the first nine months of 2006 increased $6.2 million from prior-year levels as benefits from the higher sales and lower costs, including $2.2 million of benefits from efficiency and productivity initiatives, were partially offset by $1.4 million of higher restructuring costs. Operating expenses increased $0.4 million primarily due to $2.8 million of higher spending to support strategic growth initiatives, partially offset by $1.8 million of benefits from efficiency and productivity initiatives. As a result of these factors, segment operating earnings in the first nine months of 2006 increased $5.8 million as compared with the prior year.

Financial Services

	Three Months Ended					
	September 30, 2006		October 1, 2005		Increase / (Decrease)	
(Amounts in millions)						
Financial services revenue	$ 11.3	100.0%	$ 13.1	100.0%	$ (1.8)	-13.7%
Financial services expenses	8.3	73.5%	9.5	72.5%	(1.2)	-12.6%

Segment operating income	$ 3.0	26.5%	$ 3.6	27.5%	$ (0.6)	-16.7%

Operating income was $3.0 million on $11.3 million of revenue in the third quarter of 2006, as compared with $3.6 million of operating income on $13.1 million of revenue in the third quarter of 2005. The decrease in operating income primarily reflects the impact of lower net interest spreads and a 1.3% decline in year-over-year originations.

	Nine Months Ended					
	September 30, 2006		October 1, 2005		Increase / (Decrease)	
(Amounts in millions)						
Financial services revenue	$ 34.2	100.0%	$ 43.4	100.0%	$ (9.2)	-21.2%
Financial services expenses	26.2	76.6%	30.5	70.3%	(4.3)	-14.1%
Segment operating income	$ 8.0	23.4%	$ 12.9	29.7%	$ (4.9)	-38.0%

Operating income was $8.0 million on $34.2 million of revenue in the first nine months of 2006, as compared with $12.9 million of operating income on $43.4 million of revenue in the first nine months of 2005. The decrease in operating income primarily reflects the impact of lower net interest spreads, partially offset by a 4.1% increase in year-over-year originations.

Corporate

Snap-on's general corporate expenses were $12.3 million in the third quarter of 2006, up from $10.5 million in the third quarter of 2005, primarily due to $6.4 million of increased stock-based and performance-based incentive compensation costs, including $1.4 million from the adoption of SFAS No. 123(R), partially offset by $3.8 million of benefits from cost reduction initiatives.

Snap-on's general corporate expenses were $39.3 million in the first nine months of 2006, up from $31.6 million in the prior year, primarily due to $13.6 million of increased stock-based and performance-based incentive compensation, including $5.2 million from the adoption of SFAS No. 123(R). Increased expenses in 2006 also included $3.8 million of higher insurance and other costs. These increases in general corporate expenses were partially offset by $6.1 million of benefits from cost reduction initiatives.

FINANCIAL CONDITION

Snap-on's growth has historically been funded by a combination of cash provided by operating activities and debt financing. Snap-on believes that its cash from operations, coupled with its sources of borrowings, are sufficient to fund its anticipated requirements for working capital, capital expenditures, restructuring activities, acquisitions, common stock repurchases and dividend payments. Snap-on believes that the strength of its balance sheet affords the company the financial flexibility to respond to both internal growth opportunities and those available through acquisitions.

Snap-on announced on October 23, 2006 (subsequent to its 2006 third-quarter end), that it had signed a definitive agreement to acquire ProQuest Business Solutions from ProQuest Company for approximately $480 million in cash plus the assumption of $19 million of debt. Snap-on intends to fund the transaction, which is expected to close by the end of November 2006, through a combination of $180 million of cash and $300 million of borrowings under the company's exisiting credit facilities. Subsequent to the closing of Snap-on's acquisition of ProQuest Business Solutions, Snap-on expects to access medium- and long-term debt markets, as appropriate, to refinance approximately $250 million of the acquisition indebtedness and, thus, replenish its short-term liquidity. Snap-on's long-term financing strategy is to maintain continuous access to the debt markets to accommodate its liquidity needs. See Note 18 for further discussion of Snap-on's pending acquisition of ProQuest Business Solutions.

The following discussion focuses on information included in the accompanying Consolidated Balance Sheets.

Snap-on has been focused on improving asset utilization by making more effective use of its investment in certain working capital items. As of September 30, 2006, working capital (defined as current assets less current liabilities) of $611.8 million was up slightly from $566.8 million as of December 31, 2005 (fiscal 2005 year end). The company assesses operating performance and effectiveness relative to those components of working capital, particularly accounts receivable and inventories, that are more directly impacted by operational decisions. The following represents the company's working capital position as of September 30, 2006, and December 31, 2005.

(Amounts in millions)	September 30, 2006	December 31, 2005
Cash and cash equivalents	$ 246.0	$ 170.4
Accounts receivable - net of allowances	502.4	485.9
Inventories	312.6	283.2
Other current assets	150.8	133.4
Total current assets	1,211.8	1,072.9
Accounts payable	(168.0)	(135.4)
Notes payable and current maturities of long-term debt	(17.7)	(24.8)
Other current liabilities	(414.3)	(345.9)
Total current liabilities	(600.0)	(506.1)
Total working capital	$ 611.8	$ 566.8

Accounts receivable at the end of the third quarter of 2006 was $502.4 million, up $16.5 million from year-end 2005 levels, largely reflecting the impact of higher sales and $15.2 million of currency translation. At the end of the third quarter of 2006, days sales outstanding was 75 days, slightly up from 74 days at December 31, 2005, but improved from 77 days as of the third quarter of 2005.

Inventories were $312.6 million at the end of the third quarter of 2006, up $29.4 million from year-end 2005 levels, including $10.2 million of currency translation. Inventory turns (trailing 12 months of cost of goods sold, divided by the average of the beginning and ending inventory balance for the trailing 12 months) at September 30, 2006, of 4.2 turns were up slightly compared with 4.1 turns at year-end 2005 and up from 3.9 turns at the end of the third quarter of 2005. Inventories accounted for using the first-in, first-out ("FIFO") method as of both September 30, 2006, and December 31, 2005, approximated 65% and 63% of total inventories. All other inventories are generally accounted for using the last-in, first-out ("LIFO") cost method. The company's LIFO reserve was $77.5 million at September 30, 2006, compared to $82.1 million at year-end 2005.

Notes payable to banks under uncommitted lines of credit were $5.3 million at September 30, 2006, and $20.9 million at December 31, 2005. Amounts payable by SOC to CIT to support SOC's working capital requirements were $12.4 million at September 30, 2006, and $3.9 million at December 31, 2005. See Note 6 for further discussion of SOC.

At September 30, 2006, Snap-on had a $400 million multi-currency revolving credit facility that terminates on July 27, 2009. The $400 million multi-currency revolving credit facility's financial covenant requires that Snap-on maintain a ratio of debt to the sum of total debt plus shareholders' equity of not greater than 0.60 to 1.00. As of September 30, 2006, Snap-on believes that it was in compliance with all covenants of this revolving credit facility.

At September 30, 2006, Snap-on also had $20 million of unused committed bank lines of credit, of which $10 million expires on July 29, 2007, and $10 million expires on August 31, 2007. At September 30, 2006, Snap-on had approximately $420 million of unused available debt capacity under the terms of its revolving credit facility and committed bank lines of credit.

The following discussion focuses on information included in the accompanying Consolidated Statements of Cash Flows.

Cash flow provided from operating activities was $150.9 million in the first nine months of 2006 as compared to $116.7 million in the first nine months of 2005. Capital expenditures were $31.5 million in the first nine months of 2006 as compared with $27.8 million in the comparable prior-year period. Capital expenditures in 2006 mainly reflect efficiency and cost-reduction capital investments, including the installation of new production equipment and machine tooling to enhance manufacturing and distribution operations, as well as ongoing replacements of manufacturing and distribution equipment. In addition to equipment investments, the company has also acquired computer hardware to upgrade internal systems and enhance the company's existing global Enterprise Resource Planning management information system. Snap-on anticipates full-year 2006 capital expenditures to be in a range of $45 million to $50 million, as compared to $40.1 million in 2005. Full-year depreciation and amortization expense is anticipated to be approximately $48 million to $51 million in 2006, as compared to $52.2 million in 2005.

Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and franchisee stock purchase plans, stock options, and other corporate purposes, as well as to repurchase shares when market conditions are favorable. During the first nine months of 2006, Snap-on repurchased 2,066,618 shares of common stock for $83.7 million under its previously announced share repurchase programs, as compared to repurchases of 512,100 shares of common stock for $17.6 million in the first nine months of 2005. As of the end of the third quarter of 2006, Snap-on has remaining availability to repurchase up to an additional $154.5 million in common stock pursuant to the Board of Directors' authorizations. The purchase of Snap-on common stock is at the company's discretion, subject to prevailing financial and market conditions.

Snap-on has paid consecutive quarterly cash dividends, without interruption or reduction, since 1939. Cash dividends paid were $47.7 million in the first nine months of 2006, as compared to $43.3 million in the first nine months of 2005. On August 4, 2006, the Board of Directors declared a dividend of $0.27 per share, payable September 11, 2006, to shareholders of record on August 21, 2006. The company expects the Board of Directors to declare the 2006 fourth quarter dividend in November 2006. The Board of Directors declared both the second- and third-quarter 2005 dividends in the second quarter, and declared the 2005 fourth quarter dividend in the third quarter of 2005.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements and related notes contain information that is pertinent to management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. These estimates are generally based on historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources, as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates. Snap-on considers the following policies to be the most critical in understanding the judgments that are involved in the preparation of the company's consolidated financial statements and the uncertainties that could impact the company's financial position, results of operations and cash flow.

Revenue Recognition: Snap-on derives revenue primarily from the sale of tool, diagnostic, service and equipment solutions for professional tool and equipment users. Snap-on markets its products and services through the worldwide franchised mobile van channel, company direct sales, and independent distributor and other non-franchised channels, including its public Internet website. Snap-on also derives revenue from various financing programs to facilitate the sales of its products.

Snap-on recognizes revenue from the sale of tool, diagnostic, service and equipment solutions when all of the following conditions are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectibility is reasonably assured; and (iv) delivery has occurred or services have been rendered. Delivery generally occurs when the title and the risks and rewards of ownership have substantially transferred to the customer. For sales contingent upon customer acceptance or product installation, revenue recognition is deferred until such obligations are fulfilled. As required by SFAS No. 48, "*Revenue Recognition When Right of Return Exists,"* estimated product returns are recorded as a reduction in reported revenues at the time of sale based upon historical product return experience and assumptions for the gross profit margin and volume of future sales returns. Provisions for customer volume rebates, discounts and allowances are also recorded as a reduction of reported revenues at the time of sale based on historical experience and known trends. Revenue related to maintenance and subscription agreements is recognized over the term of the agreement.

Financial Services Revenue: In addition to its sales of tool, diagnostic, service and equipment solutions, Snap-on also generates revenue from various financing activities that include (i) loans to franchisees; and (ii) loans to the franchisees' customer network and to Snap-on's industrial and other customers for the purchase of tools and equipment on an extended-term payment plan. These financing programs are offered through SOC, and the company's wholly owned international finance subsidiaries. Financial services revenue consists of SOC's sales of originated contracts to CIT and service fee income, as well as installment contract revenue and franchisee loan receivable revenue derived from SOC and Snap-on's wholly owned international finance operations. The decision to finance through Snap-on or another financing entity is solely at the election of the customer. When assessing customers for potential financing, Snap-on considers various factors regarding ability to pay including financial condition, collateral, debt-serving capacity, past payment experience and credit bureau information. Contracts originated by SOC and subsequently sold to CIT are also subject to the underwriting approval of CIT.

Financing revenue from SOC is recognized primarily from the sale of originated contracts to CIT net of various fees, including securitization, warehousing, bad debt and prepayment fees. SOC continues to service these contracts for an estimated market-rate servicing fee. Servicing fees are paid to SOC by CIT and such revenue is recognized over the contractual term of the loan, with a portion of the servicing fee recognized at the time of origination. Financing revenue from originated loans that are retained is recognized over the life of the contract, with interest computed on a daily basis.

Snap-on's wholly owned international finance subsidiaries own all of the loans originated through their financing programs. Revenue from interest income is recognized over the life of the contract, with interest computed on a daily basis.

Franchise fee revenue, including nominal, non-refundable initial and ongoing monthly fees (primarily for sales and business training and marketing and product promotion programs), is recognized as the fees are earned.

Allowances for Doubtful Accounts: Snap-on's accounts receivable are reported net of estimated bad debt allowances, which are regularly evaluated by management for adequacy. The evaluations take into consideration various financial and qualitative factors that may affect customers' ability to pay. These factors may include customers' financial condition, collateral, debt-servicing capacity, past payment experience and credit bureau information. Snap-on regularly reviews the allowance estimation process and adjusts the allowances as appropriate. It is possible, however, that the accuracy of Snap-on's estimation process could be adversely impacted if the financial condition of its customers were to deteriorate. The company does not believe that accounts receivable represent significant concentrations of credit risk because of the diversified portfolio of individual customers and geographical areas.

Inventory Valuation: Snap-on values its inventory at the lower of cost or market and adjusts for the value of inventory that is estimated to be excess, obsolete or otherwise unmarketable. Inventory adjustments for raw materials are largely based on analysis of raw material age and actual physical inspection of raw material for fitness for use. As part of evaluating work-in-progress and finished goods, management reviews individual product stock-keeping units (SKUs) by product category and product life cycle. Cost adjustments for each product category/product life-cycle state are generally established and maintained based on a combination of historical experience, forecasted sales and promotions, technological obsolescence, inventory age and other actual known conditions and circumstances. Should actual product marketability and raw material fitness for use be affected by conditions that are different from management estimates, further adjustments to inventory allowances may be required.

Warranty Accruals: Snap-on provides product warranties for specific product lines and accrues for estimated future warranty costs in the period in which the sale is recorded. Snap-on calculates its accrual requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience, including the timing of claims during the warranty period and actual costs incurred. See Note 16 to the Consolidated Financial Statements for further discussion of Snap-on's warranty accrual.

Pension Benefits: The calculation of Snap-on's pension expense and projected benefit obligation requires the use of a number of assumptions. Changes in these assumptions are primarily influenced by factors outside of Snap-on's control and can have a significant effect on the amounts reported in the financial statements. Snap-on believes that the two most critical assumptions are the expected return on plan assets and the assumed discount rate.

For a discussion of the development of Snap-on's pension plans and expected return on plan assets assumptions, see Note 13 to the Consolidated Financial Statements in the company's 2005 Annual Report on Form 10-K.

Income Taxes: The company records a valuation allowance to reduce its deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. While the company has considered future taxable income and ongoing prudent and feasible tax strategies in assessing the need for the valuation allowance, if these estimates and assumptions change in the future, the company may be required to adjust its valuation allowance. This could result in a charge to, or an increase in, income in the period such determination is made.

In addition, the company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions.

The company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter.

Stock-Based Compensation: Effective January 1, 2006, the company adopted SFAS No. 123(R) using the modified prospective method. SFAS No. 123(R) requires entities to recognize the cost of employee services in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). That cost, based on the estimated number of awards that are expected to vest, will be recognized over the period during which the employee is required to provide the service in exchange for the award. No compensation cost is recognized for awards for which employees do not render the requisite service. Upon adoption, the grant-date fair value of employee share options and similar instruments was estimated using the Black-Scholes option valuation model.

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award and stock price volatility. The assumptions used are management's best estimates, but the estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the recorded and pro forma stock-based compensation expense could have been materially different from that depicted in the financial statements.

OUTLOOK

Snap-on will continue to implement its 2006 strategic priorities, including its focus on product innovation, improving manufacturing costs and process effectiveness, growth initiatives in emerging markets, and its actions to further enhance value and service to Snap-on's franchisees and customers. The completion of the ProQuest Business Solutions acquisition, which was announced on October 23, 2006, is expected to expand Snap-on's solutions offering for global automotive OEM dealerships, create new customer relationships and product integration opportunities, and accelerate earnings and cash flow growth.

As previously announced, the costs to enhance field support and for other franchise system initiatives in the Snap-on Tools Group, are anticipated to be $5 million to $7 million in 2006, of which $4.5 million has been incurred to date. Snap-on continues to believe that the implementation of its other customer service and supply chain initiatives, along with new marketing programs, will require spending of $8 million to $10 million in 2006, of which $6.6 million has been incurred to date.

The company remains encouraged by the progress to date in the Commercial and Industrial and Diagnostics and Information segments. The Financial Services segment is expected to continue to be challenged by higher interest rates, and its operating results for full-year 2006 are expected to be lower than the results achieved a year ago. Based on these factors, Snap-on expects continued year-over-year earnings improvement in the fourth quarter of 2006.

On May 16, 2006, Snap-on disclosed that it had reached an agreement to settle certain legal matters related to certain then current and former franchisees on a class basis. The settlement contains provisions that allow Snap-on to terminate the settlement agreement if more than a specified percentage of certain franchisees elect to opt out of the class; based on the level of opt outs as of the date of this Form 10-Q, those percentages will not be exceeded. The terms of the settlement are subject to final court approval, as well as other usual and customary conditions. The court's review and possible final approval of the proposed settlement, absent any appeal, are expected to occur in the fourth quarter of 2006. In connection with the resolution of this matter, Snap-on expects to pay an estimated $38.0 million to the claimants, including attorneys' fees, costs and expenses. This amount is subject to change depending on the actual number of claimants and the funds paid out as a result of the payment formulas included in the agreement.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Market, Credit and Economic Risks

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. Snap-on is exposed to market risk from changes in both foreign currency exchange rates and interest rates. Snap-on monitors its exposure to these risks and attempts to manage the underlying economic exposures through the use of financial instruments such as forward exchange contracts and interest rate swap agreements. Snap-on does not use derivative instruments for speculative or trading purposes. Snap-on's broad-based business activities help to reduce the impact that volatility in any particular area or related areas may have on its operating earnings as a whole. Snap-on's management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks.

Foreign Currency Risk Management: Snap-on has significant international operations and is subject to certain risks inherent with foreign operations that include currency fluctuations and restrictions on movement of funds. Foreign exchange risk exists to the extent that Snap-on has payment obligations or receipts denominated in currencies other than the functional currency. To manage these exposures, Snap-on identifies naturally offsetting positions and then purchases hedging instruments in an attempt to protect the residual net exposures. Snap-on's financial position and results of operations have not been materially affected by such events to date. For additional information, see Note 10.

Interest Rate Risk Management: Snap-on's interest rate risk management policies are designed to reduce the potential volatility of earnings that could arise from changes in interest rates. Through the use of interest rate swaps, Snap-on aims to stabilize funding costs by managing the exposure created by the differing maturities and interest rate structures of Snap-on's assets and liabilities. For additional information, see Note 10.

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

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, at September 30, 2006, was $0.5 million on interest rate-sensitive financial instruments and $0.1 million on foreign currency-sensitive financial instruments. The VAR model is a risk management tool and does not purport to represent actual losses in fair value that will be incurred by Snap-on, nor does it consider the potential effect of favorable changes in market factors.

Credit Risk: Credit risk is the possibility of loss from a customer's failure to make payments according to contract terms. Prior to granting credit, each customer is evaluated, taking into consideration the borrower's financial condition, collateral, debt-servicing capacity, past payment experience, credit bureau information, and other financial and qualitative factors that may affect the borrower's ability to repay. Specific credit reviews and standard industry credit scoring models are used in performing this evaluation. Loans that have been granted are typically monitored through an asset-quality-review process that closely monitors past due accounts and initiates collection actions when appropriate. In addition to its direct credit risk exposure, Snap-on also has credit risk exposure for certain SOC loan originations with recourse provisions against Snap-on (primarily for franchisee van loans). At September 30, 2006, $19.9 million of loans originated by SOC have a recourse provision to Snap-on if the loans become more than 90 days past due. For additional information on SOC, see Note 6.

Economic Risk: Economic risk is the possibility of loss resulting from economic instability in certain areas of the world. Snap-on continually monitors its exposure in these markets.

As a result of the above market, credit and economic risks, net income and revenues in any particular period may not be representative of full-year results and may vary significantly from year to year and from quarter to quarter. Inflation has not had a significant impact on the company.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Snap-on maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that material information relating to the company and its consolidated subsidiaries is timely communicated to the officers who certify Snap-on's financial reports and to other members of senior management and the Board of Directors, as appropriate.

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the company's management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2006. Based upon their evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2006 to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the quarter ended September 30, 2006, that have materially affected, or are reasonably likely to materially affect, Snap-on's internal control over disclosure controls and procedures.

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all error or fraud. Because of inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

See Note 16 for information regarding legal proceedings.

Item 1A. Risk Factors

In evaluating the company, careful consideration should be given to the following risk factors, in addition to the other risk factors contained in the company's Annual Report on Form 10-K filing dated February 21, 2006. Each of these risk factors could adversely affect the company's business, operating results and/or financial condition, as well as adversely affect the value of the company's share price. In addition to these risk factors, please refer to the other information contained in this report, including the consolidated financial statements and related notes.

Risks associated with the completion and integration of Snap-on's acquisition of ProQuest Business Solutions (or other acquisitions) could have an adverse impact on Snap-on's results of operations and financial position.

If Snap-on and ProQuest Company do not receive regulatory approval for Snap-on's acquisition of ProQuest Business Solutions, including expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and/or are unable to complete the conditions to close on the transaction within the expected time frame or at all, Snap-on may not be able to (i) accelerate earnings and cash flows; (ii) expand its existing product offerings into the global automotive OEM dealership segment; and (iii) create new customer relationships and product integration opportunities, as anticipated and as disclosed in the company's Form 8-K filing dated October 23, 2006. Additionally, if the company's integration of the ProQuest Business Solutions business is not successful, it could adversely affect Snap-on's earnings, cash flow and share price.

Acquisitions also involve risks and uncertainties that can include:

- Difficulties integrating the acquired company, retaining the acquired business'customers, and achieving the expected benefits of the acquisition, such as increased revenue and earnings, improved cash flow, cost savings, and increases in geographic, market or product presence;
- Loss of key employees of the acquired business;
- Implementing and maintaining consistent standards, controls, procedures, policies and information systems; and
- Diversion of management's attention from other business concerns.

Acquisitions could cause Snap-on to incur additional debt, earnings dilution, contingent liabilities, increased interest expense, and amortization expenses related to intangible assets. Impairment losses on goodwill and intangible assets with an indefinite life, and the incurrence of restructuring charges, could also occur as a result of acquisitions.

Item 2: Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following chart discloses information regarding the shares of Snap-on's common stock repurchased by the company during the third quarter of 2006, all of which were purchased pursuant to Board of Directors' authorizations. Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and franchisee stock purchase plans, stock options, and other corporate purposes, as well as to repurchase shares when the company believes market conditions are favorable. The repurchase of Snap-on common stock is at the company's discretion, subject to prevailing financial and market conditions.

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Value of Shares that may be Purchased Under the Plans (1) *(in millions)*
07/2/06 to 07/29/06	--	N/A	--	$145.6
07/30/06 to 8/26/06	393,900	$42.22	393,900	$147.3
08/27/06 to 09/30/06	199,100	$42.99	199,100	$154.5
Total / Average	593,000	$42.57	593,000	N/A

(1) Subject to further adjustment pursuant to the 1996 Authorization described below, as of the end of the third quarter of 2006, the approximate value of shares that may yet be purchased pursuant to the three outstanding Board of Directors' authorizations discussed below is $154.5 million.

- In its Annual Report on Form 10-K for the fiscal year ended December 28, 1996, the company disclosed that the company's Board authorized the company to repurchase shares of the company's common stock from time to time in the open market or in privately negotiated transactions (the "1996 Authorization"). The 1996 Authorization allows the repurchase of up to the number of shares issued or delivered from treasury from time to time under the various plans the company has in place that call for the issuance of the company's common stock. Because the number of shares that are purchased pursuant to the 1996 Authorization will change from time to time as (i) the company issues shares under its various plans and (ii) shares are repurchased pursuant to this authorization, the number of shares authorized to be repurchased will vary from time to time. The 1996 Authorization will expire when terminated by the company's Board. When calculating the approximate value of shares that the company may yet purchase under the 1996 Authorization, the company assumed a price of $42.28, $42.33 and $44.55 per share of common stock as of the end of the 2006 fiscal months ended July 29, August 26 and September 30, respectively.

- By press release dated June 29, 1998, the company announced that the company's Board authorized the repurchase of an aggregate of $100 million of the company's common stock (the "1998 Authorization"). The 1998 Authorization will expire when the aggregate repurchase price limit is met, unless terminated earlier by the company's Board.

- By press release dated February 3, 1999, the company announced that the company's Board authorized the repurchase of an aggregate of $50 million of the company's common stock (the "1999 Authorization"). The 1999 Authorization will expire when the aggregate repurchase price limit is met, unless terminated earlier by the company's Board.

Item 5: Other Information

During the third quarter of 2006, Snap-on recorded costs associated with exit and disposal activities of $4.3 million. Of the $4.3 million costs incurred in the third quarter of 2006, $3.3 million qualified for accrual treatment. Costs associated with exit and disposal activities in 2006 primarily related to headcount reductions from (i) realignment of the franchise support structure; (ii) closure of a facility in the Netherlands; (iii) the closure and lease termination of a facility in the United States; (iv) transfer of certain production activities from Sweden to lower-cost regions and emerging markets; and (v) various management realignment actions at other Snap-on facilities. Accrual usage of $3.9 million during the third quarter of 2006 for these actions primarily reflects severance and related payments for the separation of approximately 450 employees. The utilization of the severance costs and facility consolidation or closure costs will extend beyond 2006 primarily due to longer-term severance and lease obligations. Snap-on also expects that it will incur approximately $5 million to $7 million of additional exit and disposal charges in the fourth quarter of 2006.

Item 6: Exhibits

Exhibit 10.1 Amended and Restated Snap-on Incorporated Directors' 1993 Fee Plan (as amended on August 3, 2006)

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

Exhibit 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

Exhibit 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

SNAP-ON INCORPORATED

Date: October 23, 2006

/s/ Martin M. Ellen
Martin M. Ellen, Principal Financial Officer,
Chief Financial Officer,
Senior Vice President - Finance

EXHIBIT INDEX

Exhibit No.	Exhibit
10.1	Amended and Restated Snap-on Incorporated Directors' 1993 Fee Plan (as amended on August 3, 2006)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Amended and Restated
Snap-on Incorporated
Directors' 1993 Fee Plan
(as amended through August 3, 2006)

1. Purpose. The Amended and Restated Snap-on Incorporated Directors' 1993 Fee Plan (the "Plan") is intended to provide an incentive to members of the Board of Directors (the "Board") of Snap-on Incorporated, a Delaware corporation (the "Company"), who are not employees of the Company ("Directors"), to remain in the service of the Company and increase their efforts for the success of the Company and to encourage such Directors to own shares of the Company's stock or participate in a Company phantom stock account, thereby aligning their interests more closely with the interests of stockholders.

2. Definitions.

(a) "Board" means the Board of Directors of the Company.

(b) "Committee" means a committee consisting of members of the Board authorized to administer the Plan.

(c) "Common Stock" means the common stock, par value $1.00 per share, of the Company.

(d) "Deferral Election" means an election pursuant to Section 6 hereof to defer receipt of Fees and/or shares of Common Stock which would otherwise be received pursuant to Elective Grants.

(e) "Deferred Amounts" mean the amounts credited to a Director's Share Account or Cash Account pursuant to a Deferral Election.

(f) "Director" means a member of the Board or an appointed Director Emeritus, who is not an employee of the Company.

(g) "Elective Grants" shall have the meaning set forth in Section 5(a) hereof.

(h) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(i) "Fair Market Value" means the closing price of the Common Stock on the New York Stock Exchange on any particular date; provided, however, that for purposes of Section 8, Fair Market Value shall mean the closing price of Common Stock on the New York Stock Exchange on the date of the Change of Control (as defined therein) or, if higher, the highest price per share of Common Stock paid in the transaction giving rise to the Change of Control.

(j) "Fees" mean the annual retainer scheduled to be paid to a Director for the calendar year plus any additional fees (including meeting and committee fees) earned by a Director for his or her services on the Board during the calendar year.

(k) "Grants" mean Elective Grants.

(l) "Share Election" shall have the meaning set forth in Section 5(a) hereof.

3. Administration of the Plan.

(a) Member of the Committee. The Plan shall be administered by the Committee. Members of the Committee shall be appointed from time to time by the Board, shall serve at the pleasure of the Board and may resign at any time upon written notice to the Board.

(b) Authority of the Committee. The Committee shall adopt such rules as it may deem appropriate in order to carry out the purpose of the Plan. All questions of interpretation, administration, and application of the Plan shall be determined by a majority of the members of the Committee then in office, except that the Committee may authorize any one or more of its members, or any officer of the Company, to execute and deliver documents on behalf of the Committee. The determination of such majority shall be final and binding in all matters relating to the Plan. No member of the Committee shall be liable for any act done or omitted to be done by such member or by any other member of the Committee in connection with the Plan, except for such member's own willful misconduct or as expressly provided by statute.

4. Stock Reserved for the Plan. The number of shares of Common Stock authorized for issuance under the Plan is 300,000, subject to adjustment pursuant to Section 7 hereof. Shares of Common Stock delivered hereunder may be either authorized but unissued shares or previously issued shares reacquired and held by the Company.

5. Terms and Conditions of Grants.

(a) Elective Grant. Subject to Section 5(d) hereof, each Director may make an election (the "Share Election") to receive (subject to a Deferral Election) any or all of his or her Fees earned in each calendar year in the form of Common Stock (the "Elective Grants"). The shares of Common Stock (and cash in lieu of fractional shares) issuable pursuant to a Share Election shall be transferred in accordance with Section 5(b) hereof. The Share Election (i) must be in writing and delivered to the Secretary of the Company, (ii) shall be effective commencing on the date the Secretary receives the Share Election or such later date as may be specified in the Share Election, and (iii) shall remain in effect unless modified or revoked by a subsequent Share Election in accordance with the provisions hereof.

(b) Transfer of Shares. Shares of Common Stock issuable to a Director with respect Elective Grants shall be transferred to such Director as of the last business day of each calendar month. The total number of shares of Common Stock to be so transferred shall be determined by dividing (a) the dollar amount of the Director's Fees payable during the applicable calendar month to which the Share Election applies, by (b) the Fair Market Value of a share of Common Stock on the last business day of such calendar month. In no event, shall the Company be required to issue fractional shares. Whenever under the terms of this Section 5 a fractional share of Common Stock would otherwise be required to be issued to a Director, an amount in lieu thereof shall be paid in cash based upon the Fair Market Value of such fractional share.

(c) Termination of Services. If a Director's services as a Board member are terminated before the end of a calendar quarter, the Director shall receive in cash the Fees such Director would otherwise have been entitled to receive for such quarter in the absence of this Plan.

(d) Commencement of Grants. Notwithstanding anything in this Plan to the contrary, no Grants shall be effective with respect to Fees to be paid prior to the requisite approval of this Plan by the stockholders of the Company.

6. Deferral Election.

(a) In General. Each Director may irrevocably elect annually (a "Deferral Election") to defer receiving all or a portion of the shares of Common Stock (that would otherwise be transferred upon a Grant) or such Director's Fees in respect of a calendar year that are not subject to a Grant. Deferral Elections shall be made in multiples of ten percent. A Director who makes a Deferral Election with respect to Grants shall have the amount of deferred shares of Common Stock credited to a "Share Account" in the form of "Share Units." A Director who makes a Deferral Election with respect to Fees that are not subject to a Grant shall have the amount of Deferred Fees credited to a "Cash Account." Collectively, the amounts deferred in a Director's Share Account and Cash Account shall hereafter be the "Deferred Amounts."

(b) Timing of Deferral Election. The Deferral Election shall be in writing and delivered to the Secretary of the Company on or prior to December 31 of the calendar year immediately preceding the calendar year in which the applicable Fees are to be earned; provided, however, that a New Director may make a Deferral Election with respect to Fees earned subsequent to such election during the thirty-day period immediately following the commencement of his or her directorship. A Deferral Election, once made, shall be irrevocable for the calendar year with respect to which it is made and shall remain in effect for future calendar years unless modified or revoked by a subsequent Deferral Election in accordance with the provisions hereof. A Deferral Election may be changed only with respect to fees earned subsequent to the effective date of such Election; provided, however, that effective August 3, 2006, Directors may execute a new Deferral Election to change the payment commencement date and/or manner of payments for previously Deferred Amounts, provided, that such Deferral Election is: (i) in the case of a Deferral Election to accelerate payments, made prior to December 31, 2006 and provides for payment no earlier than January 1, 2007; (ii) in the case of a Deferral Election to postpone payment, postpones payment of previously Deferred Amounts for a period of five years or more from when payment was previously scheduled to occur, and (iii) any actions taken pursuant to (i) or (ii) must be performed in accordance with the provisions of the American Jobs Creation Act and any rules and regulations issued pursuant thereto.

(c) Cash Dividends and Share Accounts. Whenever cash dividends are paid by the Company on outstanding Common Stock, there shall be credited to the Director's Share Account additional Share Units equal to (i) the aggregate dividend that would be payable on outstanding Shares of Common Stock equal to the number of Share Units in such Share Account on the record date for the dividend, divided by (ii) the Fair Market Value of the Common Stock on the last trading business day immediately preceding the date of payment of the dividend.

(d) Cash Accounts. At the election of a Director, a Director's Cash Account shall be credited or debited with (i) interest at an annual rate equal to the sum of the daily interest earned at a rate specified by the Committee and compounded monthly or (ii) the annual investment return relating to such investment vehicle or vehicles that the Director chooses from those the Committee determines to make available, or such combination of (i) and (ii) as the Director designates at the time of a Deferral Election or a modification thereof.

(e) Commencement of Payments. Except as otherwise provided in Sections 6(h) and 8(b), a Director's Deferred Amounts shall become payable as soon as practicable following the earlier to occur of (a) the date the Director terminates service as a Director or (b) the Director's attainment of age 70 years or such later date designated by the Director in the Deferral Election.

(f) Form of Payments. Subject to a Director's right to convert a Share Account balance to a Cash Account, all payments from a Share Account shall be made in shares of Common Stock by converting Share Units into Common Stock on a one-for-one basis, with payment of fractional shares to be made in cash. All payments from a Cash Account shall be made in cash.

(g) Manner of Payments. In his or her Deferral Election, each Director shall elect to receive payment of his or her Deferred Amounts either in a lump sum or in two to fifteen substantially equal annual installments. In the event of a Director's death, payment of the remaining portion of the Director's Deferred Amounts will be made to the Director's beneficiary in a lump sum as soon as practicable following the Director's death.

(h) Hardship Distribution. Notwithstanding any Deferral Election, in the event of severe financial hardship to a Director resulting from a sudden and unexpected illness, accident or disability of the Director or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Director, all as determined by the Committee, a Director may withdraw any portion of the Share Units in his or her Share Account or cash in his or her Cash Account by providing written notice to the Secretary of the Company. All payments resulting from such a hardship shall be made in the form provided in Section 6(f) above.

(i) Designation of Beneficiary. Each Director or former Director entitled to payment of deferred amounts hereunder from time to time may designate any beneficiary or beneficiaries (who may be designated concurrently, contingently or successively) to whom any such deferred amounts are to be paid in case of the Director's death before receipt of any or all of such deferred amounts. Each designation will revoke all prior designations by the Director or former Director, shall be in a form prescribed by the Company, and will be effective only when filed by the Director or former Director, during his or her lifetime, in writing with the Secretary of the Company. Reference in this Plan to a Director's "beneficiary" at any date shall include such persons designated as concurrent beneficiaries on the Director's beneficiary designation form then in effect. In the absence of any such designation, any balance remaining in a Director's or former Director's Share Account at the time of the Director's death shall be paid to such Director's estate in a lump sum.

(j) Account Transfers. Subject to any applicable corporate policies, from time to time a Director may convert all or a portion of any Cash Account balance of the Director into deferred shares of Common Stock credited to the Director's corresponding Share Account by written notice to the Company. In such event, and effective as of the date the Company receives such a notice, (i) there shall be credited to the Director's Share Account a number of Share Units equal to the number of Share Units specified in the notice or, if such notice specifies a dollar amount, a number of Share Units equal to such dollar amount divided by the Fair Market Value on the last trading business day immediately preceding the date the Company receives such notice and (ii) the Director's Cash Account shall be debited in an amount equal to the number of Share Units credited to the Share Account multiplied by the Fair Market Value on the same trading business day. Subject to any applicable corporate policies, from time to time a Director with a credit balance in a Share Account may convert all or a portion of such balance into an amount to be credited to the Director's corresponding Cash Account by giving written notice to the Company. In such event, and effective as of the date the Company receives such a notice, (i) there shall be credited to the Director's Cash Account an amount equal to the number of Share Units specified in the notice multiplied by the Fair Market Value on the last trading business day immediately preceding the date the

Company receives such notice and (ii) the Director's Share Account shall be debited by the number of Share Units specified in the notice.

7. Changes in Capitalization. In the event of any Change in Capitalization, a proportionate substitution or adjustment may be made in (i) the aggregate number and/or kind of shares or other property reserved for issuance under the Plan, (ii) the number and kind of shares or other property to be delivered under the Plan and (iii) the number and kind of shares or other property held in each Director's Share Account, in each case as may be determined by the Committee in its sole discretion. Such other proportionate substitutions or adjustments may be made as shall be determined by the Committee in its sole discretion. "Change in Capitalization" means any increase, reduction, change or exchange of shares of Common Stock for a different number or kind of shares or other securities or property by reason of a reclassification, recapitalization, merger, consolidation, reorganization, issuance of warrants or rights, stock dividend, stock split or reverse stock split, combination or exchange of shares, repurchase of shares, change in corporate structure or otherwise; or any other corporate action, such as declaration of a special dividend, that affects the capitalization of the Company.

8. Change of Control.

(a) For purposes of this Plan, a "Change of Control" shall be deemed to have occurred on the first to occur of any one of the events set forth in the following paragraphs:

(1) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding voting securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (3) below; or

(2) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on January 25, 2002, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on January 25, 2002 or whose appointment, election or nomination for election was previously so approved or recommended; or

(3) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 60% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding voting securities; or

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

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

For purposes of the definition of Change of Control, "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act; "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act; and "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company or (v) any individual, entity or group which is permitted to, and actually does, report its Beneficial Ownership on Schedule 13G (or any successor schedule); provided that if any such individual, entity or group subsequently becomes required to or does report its Beneficial Ownership on Schedule 13D (or any successor schedule), such individual, entity or group shall be deemed to be a Person for purposes hereof on the first date on which such individual, entity or group becomes required to or does so report Beneficial Ownership of all of the voting securities of the Company Beneficially Owned by it on such date.

(b) Upon the occurrence of a Change of Control, notwithstanding any provision of this Plan to the contrary,

(i) all Share Units credited to a Share Account shall be converted into an amount equal to the number of Share Units multiplied by the Fair Market Value, which amount shall be (1) transferred as soon as possible to each Director and (B) denominated in (i) such form of consideration as the Director would have received had the Director been the owner of record of such shares of Common Stock at the time of such Change of Control, in the case of a "Change of Control With Consideration" or (2) cash, in the case of a "Change of Control Without Consideration"; and

(ii) fees earned in respect of the calendar quarter in which the Change of Control occurs, together with all Deferred Amounts credited to a Cash Account, shall be transferred as soon as practicable in cash to each Director.

For purposes of this Section 8, (I) "Change of Control With Consideration" shall mean a Change of Control in which shares of Common Stock are exchanged or surrendered for shares, cash or other property and (II) "Change of Control Without Consideration" shall mean a Change of Control pursuant to which shares of Common Stock are not exchanged or surrendered for shares, cash or other property.

---

9. Term of Plan. This Plan shall become effective as of the date of approval of the Plan by the stockholders of the Company, and shall remain in effect until a Change of Control, unless sooner terminated by the Board; provided, however, that, except as provided in Section 8(b) hereof, Deferred Amounts may be delivered pursuant to any Deferral Election, in accordance with such election, after the Plan's termination. Prior to the effective date of the Plan, Directors may make the elections provided for herein, but the effectiveness of such elections shall be contingent upon the receipt of stockholder approval of the Plan. No transfer of shares of Common Stock may be made to any Director or any other person under the Plan until such time as stockholder approval of the Plan is obtained pursuant to this Section 9. In the event stockholder approval is not obtained, Fees that were not subject to Deferral Elections shall be paid to the Directors in cash and Fees that were subject to Deferral Elections shall be deferred pursuant to the Prior Plan.

10. Amendment; Termination. The Board or the Committee may at any time and from time to time alter, amend, suspend, or terminate the Plan in whole or in part; provided, however, that no amendment which requires stockholder approval in order for the exemptions available under Rule 16b-3 of the Exchange Act, as amended from time to time ("Rule 16b-3"), to be applicable to the Plan and the Directors shall be effective unless the same shall be approved by the stockholders of the Company entitled to vote thereon. Notwithstanding the foregoing, no amendment shall affect adversely any of the rights of any Director, without such Director's consent, under any election theretofore in effect under the Plan.

11. Rights of Directors.

(a) Retention as Director. Nothing contained in the Plan or with respect to any Grant shall interfere with or limit in any way the right of the stockholders of the Company to remove any Director from the Board pursuant to the bylaws of the Company, nor confer upon any Director any right to continue in the service of the Company as a Director.

(b) Nontransferability. No right or interest of any Director in Deferred Amounts shall be assignable or transferable during the lifetime of the Director, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. In the event of a Director's death, a Director's rights and interests in his or her Deferred Amounts shall be transferable by testamentary will or the laws of descent and distribution. If in the opinion of the Committee a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his or her affairs because of mental condition, physical condition or age, payment due such person may be made to, and such rights shall be exercised by, such person's guardian, conservator or other legal personal representative upon furnishing the Committee with evidence satisfactory to the Committee of such status.

---

12. General Restrictions.

(a) Investment Representations. The Company may require any director to whom Common Stock is granted, as a condition of receiving such Common Stock, to give written assurances in substance and form satisfactory to the Company and its counsel to the effect that such person is acquiring the Common Stock for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with Federal and applicable state securities laws.

(b) Compliance with Securities Laws. Each Grant shall be subject to the requirement that, if at any time counsel to the Company shall determine that the listing, registration or qualification of the shares subject to such Grant upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with, the issuance of shares thereunder, such Grant may not be accepted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Committee. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration or qualification.

13. Withholding. The Company may defer making payments under the Plan until satisfactory arrangements have been made for the payment of any federal, state or local income taxes required to be withheld with respect to such payment or delivery. Each Director shall be entitled to irrevocably elect to have the Company withhold shares of Common Stock having an aggregate value equal to the amount required to be withheld. The value of fractional shares remaining after payment of the withholding taxes shall be paid to the Director in cash. Shares so withheld shall be valued at Fair Market Value on the regular business day immediately preceding the date such shares would otherwise be transferred hereunder.

14. Governing Law. This Plan and all rights hereunder shall be construed in accordance with and governed by the laws of the State of Delaware.

15. Headings. The headings of sections and subsections herein are included solely for convenience of reference and shall not affect the meaning of any of the provisions of the Plan.

EXHIBIT 31.1

CERTIFICATIONS

I, Jack D. Michaels, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Snap-on Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 23, 2006

/s/ Jack D. Michaels
Jack D. Michaels
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Martin M. Ellen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Snap-on Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 23, 2006

/s/ Martin M. Ellen
Martin M. Ellen
Principal Financial Officer

EXHIBIT 32.1

**Certification of Chief Executive Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Snap-on Incorporated (the “Company”) on Form 10-Q for the period ending September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Jack D. Michaels as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jack D. Michaels
Jack D. Michaels
Chief Executive Officer

October 23, 2006

EXHIBIT 32.2

Certification of Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Snap-on Incorporated (the "Company") on Form 10-Q for the period ending September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Martin M. Ellen as Principal Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Martin M. Ellen
Martin M. Ellen
Principal Financial Officer
October 23, 2006