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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Snap-On Incorporated 2009 third quarter results conference call. At this time all participants are in a listen-only mode. At the conclusion of our remarks we will conduct a question-and-answer session.

(Operator Instructions) As a reminder this call is being recorded.

I would now like to introduce your host for today's conference call, Mr. Marty Ellen, Chief Financial Officer. You may begin your conference.

Marty Ellen - *Snap-on Incorporated - SVP, CFO*

Thank you, Mar, and good morning, everyone. Thank you for joining us today to review Snap-On's third quarter 2009 results. By now you should have seen our press release issued this morning. Joining me today is Nick Pinchuk, Snap-On's CEO. Nick will kick off our call this morning with his perspective on our performance. I will then provide a more detailed review of our financial results and afterwards we'll take your questions.

Consistent with past practice, we will use slides to help illustrate our discussion. You can find a copy of these slides on our website next to the audio icon for this call. These slides will be archived on our website along with a transcript of today's call.

Any statements made during this call relative to management's expectations, estimates or beliefs or otherwise state management's or Company's outlook, plans or projections are forward-looking statements and actual results may differ materially from those made in such statements.

Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings. This call is copyrighted material by Snap-On Incorporated. It is intended solely for the purpose of this audience.

Therefore, it cannot be recorded, transcribed or rebroadcast by any means without Snap-On's express permission. With that said, I will now turn the call over to Nick. Nick?

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

Thanks, Marty. Good morning, everybody. Well, the economic headwinds continue to prove challenging. And in this environment, Snap-On seeks to limit the impact of the uncertainty. We seek to keep improving on execution and we're going to continue investing in our prime strategic initiatives.

In that context, I think it's fair to say that we're encouraged by our overall results and in particular with the sequential progress of both the Commercial Industrial and the Snap-On Tools groups. Those improvements came in what is seasonally our slowest quarter, so it's clear that the period's actual performance confirms the continued strengthening of our Company.

The benefits of our Snap-On value creation processes were again evident over the last three months. Marty's going to discuss, as usual, the financial results in detail, but I want to take a few minutes to highlight some of the elements of the quarter, to provide you a bit of perspective on what we see in our markets and to discuss our approach in navigating what are proving to be some turbulent times.

For the overall corporation, sales were down from last year by nearly 17%, 13.6% if you exclude the impact of currency. However, that year-over-year decline narrowed significantly from the second quarter. The third quarter is normally slow for us, but in 2009 the sequential decline was only about half of what we have seen in other years. In fact, our Commercial and Industrial segment, or C&I, actually saw sequential increase in organic sales.

Now while that gain was slight an uptick of any magnitude in the third quarter is very unusual in this segment. Remember, C&I has a substantial presence in Europe and they had to overcome the summer vacation slowdown, so we were quite encouraged by the results. Another positive was the sale of what we call big-ticket items. This includes diagnostics products, tool storage units sold through our Snap-On Tools group. It also applies to larger capital involvement-type equipment, liners, tire-changer's and balancers sold through the C&I group.

In the Tools group handheld diagnostics sold well. Those are the units where technicians can see direct productivity benefits with their purchases. And we have some great new products to induce interest in that area. At the same, there was weakness in selling tool storage units through the franchisees. These products by their nature are more discretionary and in the current economic uncertainty mechanics appear again reluctant to make a commitment to these type of products.

As far as equipment, you might recall that in the second quarter we saw some moderate recovery, particularly in North America and we're pleased that the improving trend continued in the third quarter. And even Europe showed some mild strength in that product. So with big-ticket items we believe the trends may indicate some strengthening. Equipment and diagnostics units, which have clear productivity benefits, seem to be showing mild gain.

Tool storage, which has a less direct efficiency value was again challenged in the period. That is the big-ticket story. On the overall economic and business environment we did see some positive trends. However, I think everybody would say there is still much uncertainty, especially in Europe, and as I said in this morning's release, it's impossible to predict the shape or in fact the timing of any recovery.

So we continue to focus on many other things that we do directly control, on improving our performance, on relentlessly driving the Snap-On value creation processes like safety, quality, customer connection, innovation, and rapid continuous improvement, or as we call it here RCI. We can't predict economic trends but we can testify that going forward Snap-On will continue to improve in each of those areas.

Now let's touch on the operating groups. The results in the Commercial Industrial segment were very encouraging. Every operating division in the segment showed favorable sales trends with the year-over-year declines moderating from the prior period. Profits were up nearly $11 million from the second quarter on a $9 million increase in sales. The benefits from RCI and from restructuring both proved strong in the quarter.

Even before the global down turn, however, we have been working hard to lower the structural costs of our C&I businesses and we're seeing the benefits. As previewed in July, we spent $4.5 million in the quarter on restructuring in the C&I segment, primarily in Europe, and we expect to spend a similar amount in the fourth quarter. In fact, most of the more than $15 million in restructuring occurred so far this year has been in C&I and C&I Europe, and I'd say that is appropriate given the market conditions in that region.

As I said in prior calls, however, I think it's worth noting, we're not taking out significant capacity. We fully expect we'll need those capabilities when the markets inevitably turn. I would -- I think I would describe our program as controlled restructuring, not big bang cuts, but aimed at reducing structural costs and improving productivity while we still maintain our ability to serve a fully recovered customer base.

SNA Europe, our European-based tools business, showed sequential profit improvement on seasonally lower sales in the period. The business there did continue to deal with distributor restocking. However, we are seeing some indication that this field inventory shrinkage is moderating, but while we may receive some benefit from that favorable trend in the future, the overall market still remains weak.

Of all of our businesses, SNA Europe is being impacted the most by the uncertainty. Even within Europe, the economic conditions vary by geography with the north generally showing more tangible signs of recovery. I think you see that in the third quarter GDP numbers and the south remaining very weak.

You may remember, by the way, that SNA Europe has a very strong position in Spain, which has been particularly hard hit in the downturn. Unemployment nearing 20% and some of the toughest GDP metrics in the world. So in that situation cost control is paramount for SNA Europe. And should be expected, the operation has been focused on RCI and a number of other cost reduction activities, and we saw the benefits and the sequential progress evidenced in the past quarter.

For the Equipment business, I spoke earlier about the sales declines moderating from those experienced in the first half of the year. But in this business, the real story is RCI and innovation. Equipment also achieved some strong sequential improvements in profitability on seasonally lower sales. Cost reduction played a strong role, but new product contributed as well.

I spoke to you -- and we have more new product coming in the future. I spoke to you last quarter about the launch of the Quadriga, the the world's most advanced tire changer. We knew it was a great product and that conviction was confirmed in September when it was named by "Motor Magazine" as one the top 20 tools of 2009.

We have said that expanding in the repair/garage infrastructure is an important strategic initiative, even in the downturn. Well, the Quadriga is a step forward in that area.

The third quarter also saw improvement in the North American industrial division where we had seen a relatively large fall-off in the second quarter. While year-over-year sales were down, the decline was about half of what we saw in the second quarter.

And some critical customer segments, such as the government business, bounced right back and one real bright spot was vocational training and education where we saw strength and positive comparisons, even year-over-year. This is a critical area where we have been very focused and our efforts seem to be paying dividends.

Now moving from C&I to the Snap-On Tools group. The group's sales were down sequentially about 6%, slightly better than the seasonal trend. As we have seen through the downturn, hand tool sales with their immediate productivity boost and their short paybacks have remained relatively stable and as indicated before, big-ticket items were still mixed.

Segment profits, however, improved both sequentially and from last year despite the lower sales. The evidence of RCI is showing in our results. It's heartening, especially for associates. They do live RCI everyday and it's satisfying when they see the direct benefits of their effort. It's also great when they are recognized for their efforts.

That happened recently when our Milwaukee hand tool plant was named by "Industry Week" as a finalist for their best plant award. That is a competition that searches across North America for excellence in manufacturing and continuous improvement. It's quite an honor for the Milwaukee plant associates and I congratulate them on their accomplishment.

In the D&I segment sales were down organically from the second quarter by about 4.7%, or $5 million. This segment tends to have sales variability from quarter-to-quarter based on the timing of software releases. After the strong software sales on the second quarter, profits were down by $2 million, roughly in line with our expectation, but it's worth remembering that our D&I businesses have remained quite strong throughout the downturn.

Another topic that's been discussed in the past and it's, again, worth repeating is related to the turmoil in the automotive dealership segment. Everybody reads about it. While we do operate in this space we have limited direct dependence on this segment.

Our equipment solutions activity, our products in that area, does continue to be down significantly year-over-year. Some of this relates to the lumpy program-based nature of the business. However, some can be attributed to the financial hardships of the OEM dealerships.

Snap-On business solutions, which also operates in this sector, has remained reasonably solid and we feel confident that it can find offsets in adjacent markets to limit the impact of shrinkage in the U.S. dealership population. In the end, it's, again, worth remembering that these divisions represent just 11% of our corporation's sales. Snap-On's overall business, of course, is tied primarily to vehicle repair activity, wherever it's performed. And the general fundamentals there remain strong.

While the encouraging financial results are important, equally crucial is our progress in the strategic areas we know will be decisive for our future. Part of the way Snap-On creates value is through the processes that take advantage of our connection with customers, and our tradition of innovation. We have over 4,700 vans and 3,000 direct salesmen worldwide.

That is a lot of customer touches and we flow the insights from those interactions into our innovation processes and development facilities and it's paying off. Snap-On was again awarded three "Motor Magazine" top 20 tool awards and that was for the third year in a row.

We already spoke about the extraordinary Quadriga tire changer. Also winning was the Snap-On low-profile ratchet and socket set. It's a design that is 33% shorter than the competition, allows for work in the tightest of spaces and that is a huge advantage as cars become smaller and engine compartments become tighter.

The third winner was the Varis, our fully integrated hand-held diagnostics tool. Not only is it a powerful diagnostics unit but it also provides access to the Internet. Catalogs, technical forms, parts specifications and repair information, all available carside. I just spoke about the strength of big-ticket diagnostics, Varis was a major factor.

It's this type of innovation that's allowing us to weather the storm and we're committed to making investments in new products that pay benefits by making work easier and faster, by improving productivity. The success of that effort in the third quarter proves again that innovation sells even in tough economic times. We're also remaining diligent in maintaining the health of our franchisee network and we're confident we're seeing positive results in that area.

I spoke you to last quarter about our Snap-On stimulus package and a number of other activities we have taken to aid franchisees in the downturn. We're providing them with great new products, like the Varis and the low-profile ratchets. Our training programs are showing them new ways to sell and to save and all of this seems to be helping. Franchisee turnover is at record-low levels and our van count is stable, up slightly, even in these times.

We also continue to investment in emerging markets. Construction continues on our new plant in Belarus. Also in September, we opened our new tool storage facility in China within our manufacturing complex at Kunshan. I was there at the opening.

The new plant is state-of-the-art, the workforce is enthusiastic and capable, the quality is strong and we believe the plant will have a great future. Now Marty will talk in a minute in some detail about Snap-On Credit and about the effects of transitioning to a wholly-owned finance company. I just want to point out that the move has been seamless to our customers and that is a great compliment to the team of associates that has worked so hard to bring the credit company home.

Finally, as we look at the fourth quarter, we are, finally, I think I want to say as we look at the fourth quarter, look forward to the fourth quarter, we're cautious about the environment. It is difficult to predict market movement and turbulence.

Now it's true so far in 2009 Snap-On has seen great progress, authored by RCI, innovation and other value-creation processes, and by our investments in the strategic areas of importance. We fully expect that that advancement will continue well into the fourth quarter and for periods well beyond. Now Marty will take you through the financial details. Marty?

Marty Ellen - *Snap-on Incorporated - SVP, CFO*

Thanks, Nick. Our consolidated operating results are summarized on slide 6. Reported sales in the third quarter of $582 million were down 16.6% from last year. Absent the effects of foreign currency, the year-over-year organic sales decline was 13.6%.

As Nick said, the third quarter is seasonally low for us and sales did decline sequentially, but at a much lower seasonal rate of decline than historically experienced. Our consolidated gross profit margin of 44.8% in the quarter increased 10 basis points from last year. Major factors increasing gross margin were improved mix, particularly diagnostics and software-based products, which added 90 basis points, and a 110-basis-point improvement due to LIFO inventory reductions.

We continue to carry manufacturing capacity costs due both to lower demand and to achieve targeted inventory reductions. Manufacturing capacity carrying costs, particularly in Europe, and net of cost of improvements, which include about $10 million of material cost reductions, caused a 50-basis-point margin reduction.

Additionally, higher restructuring costs reduced gross margin by 70 basis points, and the negative currency effect on cross border product flows reduced gross margin by another 70 basis points. Operating expenses in the quarter declined $24.1 million from prior year levels, principally due to $18.7 million of savings from RCI, restructuring and other cost reduction initiatives.

Lower sales volumes and currency further reduced operating expenses. Pension expense increased by about $3 million in the quarter as a result of last year's decline in pension asset values. We expect a similar increase in pension expense in the fourth quarter. Again this quarter currency was a headwind compared to year-ago exchange rates.

First, currency translation reduced reported U.S. dollar sales in the quarter by $21 million, contributing it a $1.9 million decline in operating income. As I mentioned, we have currency exposure to cross-border product flows. The most significant related to our Snap-On branded products manufactured in the U.S. and sold by our international franchisees.

This exposure reduced gross margin by $3.9 million when compared to year-ago exchange rates. So in total, currency reduced consolidated operating income in the quarter by $5.8 million on a year-over-year basis. Year-to-date, currency has reduced 2009 operating income by $27.1 million when compared to last year.

We communicated to you last quarter to expect continued higher levels of restructuring spending in response to the economic climate. In the third quarter, restructuring costs of $4.7 million were up considerably from the $1.4 million recorded last year; $4.5 million of this year's restructuring relates to the Commercial and Industrial segment, primarily to improve the segment's cost structure in Europe.

Year-to-date restructuring expenses are $15.3 million, of which $12.5 million relates to the C&I segment. For the nine months, restructuring costs are up $7.3 million from last year. We intend to spend about another $5 million to $7 million in the fourth quarter, with the majority of this related to the C&I segment.

Our full-year 2009 restructuring programs are anticipated to yield about $38 million in annualized savings. Before financial services and without restructuring charges in both years, our 2009 third quarter operating margin was 10.1% compared to 11.9% last year. We believe our RCI, restructuring and other cost-containment actions are enabling us to maintain reasonable margin performance during this prolonged recession.

As communicated during the second quarter call, we expected that Financial Services would incur an operating loss this quarter as a result of the July 16 termination of the Financial Services joint venture agreement with CIT. The operating loss in the third quarter for Financial Services was $5.3 million. This compares to operating income of $4.8 million last year. We'll cover Financial Services in more detail later.

You should also note that included with today's press release are supplemental earnings and balance sheet schedules which separate our Financial Services segment from the operations of Snap-On. Interest expense in the quarter increased $6 million year-over-year as a result of higher debt levels. In the first quarter, we issued $300 million of fixed-rate five and 10-year unsecured notes, and in the third quarter we issued $250 million of fixed-rate 12-year unsecured notes.

The proceeds from these debt issuances are being used for general corporate purposes and most importantly for the fund of Snap-On Credit's on balance sheet finance receivables. Out third quarter effective tax rate was 29.3% as compared to 33.4% in the prior year period. The lower effective tax rate primarily resulted from the resolution of certain tax matters, increased earnings associated with non-controlling interests, which are not taxable to Snap-On, and a shift in geographic mix of earnings.

The effect of the lower tax rate contributed approximately $0.02 to third quarter EPS. And, finally, net earnings of $25.4 million or $0.44 per diluted share declined $29.2 million. Of this decline, almost half, or $13.8 million, was due to the aggregate effects of the decline in financial services earnings, higher restructuring costs and higher interest expense.

With that, I will now turn to our segment results. Starting with the Commercial and Industrial group on slide 7, segment sales of $265.4 million declined 17.2% without currency primarily due to the continued global recession and distributor destocking. Gross margin in the C&I segment of 30.6% was down from 37.6% achieved last year. Approximately 140 basis points of the decline was due to $3.5 million of higher restructuring charges.

Manufacturing capacity carrying costs, primarily at our SNA Europe tools business, net of material costs reductions and RCI improvements, contributed most of the remainder of the gross margin decline. As you know, we've scaled back production in light of lower customer demand and to achieve greater inventory reduction and cash flow.

The upside to this underabsorption of manufacturing expenses was an additional $22 million inventory reduction, excluding currency, across the C&I segment in the quarter, which contributed importantly to our strong cash flow. Since year-end 2008, inventories in the C&I session, excluding currency, have been reduced by nearly $62 million.

Operating expenses in the quarter declined $16 million from prior year levels principally due to savings from ongoing RCI, restructuring and other cost-containment initiatives of $7.1 million, lower sales-related expenses and $4.1 million due to currency. As a result of these factors, operating earnings for the C&I group declined $29.8 million year-over-year, although sequentially operating earnings improved by $10.8 million.

Turning now to slide 8, on a worldwide basis organic sales in the Snap-On Tools group declined 7.1% year-over-year. In the U.S., Snap-On Tool sales were down 8.1% year-over-year. Van count in the U.S. increased slightly compared to both the second quarter this year and the third quarter last year.

In our international franchise operations, organic sales were down 3.1% year-over-year. Gross margin in the Snap-On Tools group increased to 44.8% compared to 42.4% last year. This increase is primarily due to material cost reductions of $6 million, and higher LIFO-related inventory benefit as a result of inventory reductions.

Since year-end, the Snap-On Tools groups has reduced inventory levels by $34 million excluding currency. These improvements to gross margin were partially offset by foreign currency effects on U.S. manufactured products which reduced the year-over-year gross margin by about 200 basis points. Operating expenses of $79.8 million in the quarter were down $6.4 million, or 7.4%, from 2008 primarily due to $7.4 million of savings from RCI and other cost-containment initiatives.

As a result of these items, operating earnings in the quarter were $30.6 million, representing 12.4% of sales and were up 8.5% from last year and were up 9.3% sequentially. Turning to the Diagnostics and Information group, which is shown on slide 9. Third quarter sales of $132 million declined 12.6% before currency primarily due to lower essential tool and facilitation sales to OEM dealerships.

Gross profit margin of 52.1% in the quarter improved considerably over 45.5% a year ago, benefiting from increased sales of higher margin diagnostics and software products. RCI and other cost improvements also contributed to the increase. These gross margin improvements, coupled with $6.6 million of operating expense reductions, resulted in a substantial year-over-year improvement in operating margin, 24.2% compared to 17.5% last year.

Turning to slide 10, Financial Services incurred an operating loss of $5.3 million in the third quarter. This compares to operating income of $4.8 million in the prior year. As previously communicated, we terminated our U.S. Financial Services joint venture with CIT on July 16 and purchased CIT's ownership interests in Snap-On Credit for $8.1 million. Under the JV, Snap-On Credit sold new contract originations and recorded gains on the sales of the contracts as Financial Services revenue.

Since July 16, Snap-On is providing financing for new contract originations and is recording as revenue the interest yield on the on balance sheet finance portfolio. Snap-On Credit continues to service the receivables owned by CIT.

In the early stages of building the portfolio of new contracts on our books, there is insufficient interest yield to cover the fixed operating expenses of Snap-On Credit. As a result, we experienced an operating loss in the third quarter and expect to report an operating loss of $3 million to $5 million in the fourth quarter.

Moving to slide 11, at the end of the third quarter, our balance sheet includes gross finance receivables of $255 million, including $130 million for Snap-On Credit. Of this amount, $112 million are extended credit loans to technicians. Snap-On Credit continues to manage the run-off portfolio of contracts owned by CIT which was $722 million at quarter end.

In the fourth quarter, we expect the incremental cash requirements for Snap-On Credit to be about $122 million and about $400 million in total through the third quarter of next year. We believe that we have sufficient available cash on hand, cash flow from operating activities, and available credit facilities to fund the financing needs of Snap-On Credit. The net cash requirements of our international finance portfolios are substantially self-funding.

Portfolio loss and delinquency trends are in line with our expectations. Before we turn to a discussion of our cash flow and balance sheet, I should first point out that when you examine our detailed cash flow statement included with this morning's press release, you will see cash flows associated with contract receivables as well as cash flows associated with finance receivables.

Contracts receivable include loan and leases to our franchisees and other customers. These are included in cash flows from operating activities. The cash flow consequences associated with finance receivables represent loans to technicians who are not our customers, but are customers of our franchisees. These are included in cash flows from investment activities

Now turning to slide 12, consolidated operating cash flow was $80 million for the quarter and $250 million for the first nine months, both substantially ahead of the year-ago amounts. Changes in operating assets and liabilities, which is principally working capital, contributed $32 million of cash flow in the quarter and $72 million year-to-date.

Free cash flow from operations, exclusive of Financial Services but after capital spending, was $83 million for the quarter compared to $4 million last year and $180 million year-to-date compared to $110 million last year. Free cash flow from Financial Services was as expected an outflow in the quarter of $130 million. In the quarter, capital spending of about $15 million included planned growth spending for our plant in Belarus and for the completion of our tool storage manufacturing addition in our existing facility in Kunshan, China.

We continue to expect 2009 capital spending to be in a range of $60 million to $70 million. As seen on slide 13, trade receivables decreased $64 million from year-end levels, primarily due to lower sales and continued diligence on collections. Days sales outstanding for trade receivables were 59 days at quarter end, compared to 58 days at year end.

All of our businesses are continuing their vigilant efforts in managing customer credit risk in this environment. Inventories at the end of the quarter were down $17 million from last quarter and down $73 million from year end. On a trailing 12-month basis inventory turns were four times, but 4.4 times when measured over the last three months, given the more recent and significant inventory reductions.

Net debt at the end of the quarter was $360 million. Our net debt-to-capital ratio of 21.5% compares to 25.2% at year end, and 18.9% last quarter. Cash on hand at the end of the quarter was $709 million. In addition to our cash on hand and cash flows from operations, we currently maintain a $500 million revolving credit facility provided by a strong, diversified group of international banks.

This does not expire until August 2012. We also have another $20 million of committed bank lines. At quarter end, the full $520 million of borrowing capacity was available. In addition, to these facilities, our current A2P2 short-term credit rating allows us to access the commercial paper market should we need to do so. At quarter end, no commercial paper was outstanding.

Our liquidity position and access to credit continues to remain strong. This concludes my remarks on our third quarter performance. Before opening the call for questions, Nick would like to provide some final thoughts. Nick?

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

Thanks, Marty. Well, let me end as I began. The third quarter was another encouraging period for Snap-On. Sequential results were ahead of the usual seasonal trends. And while we do seem to be on a somewhat favorable trajectory, we are cautious regarding the prediction of the timing of an economic recovery.

Historically, the third quarter is an unreliable indicator of near-term events, but what we can forecast with confidence, however, is that customer connection, innovation, RCI and Snap-On's other value-creation processes will continue to drive improvement.

What I can assure you is that we will keep investing in decisive strategic areas, strengthening our van network, penetrating garage infrastructure, expanding in critical industries, and building in emerging markets. And what we can predict is that Snap-On's position will continue to strengthen going forward despite the economic eventualities.

In closing, I will recognize that there are many associates and franchisees listening to this call. I thank you all for your dedication to our team, for your support of our initiatives, and for your extraordinary contributions to our progress. Now we'll open the line to questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you, Mr. Pinchuk. (Operator Instructions) And we go first to Jim Lucas from Janney Montgomery Scott.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Thanks. Good morning, guys.

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

Good morning, Jim.

Marty Ellen - *Snap-on Incorporated - SVP, CFO*

Good morning, Jim.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Nick, don't necessarily want to belabor this, but could we dig a little bit deeper into what you are seeing in Europe, since clearly that is an important area and a lot of the indicators show that is lagging some of the stabilization that we're beginning to see in North America, and in particular, any, even if it's anecdotal, color or evidence you could provide of what you're seeing in terms of what seeing in terms of the inventory levels and destocking levels?

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

Sure, Jim. You know, I was just there about 10 days ago. What we saw was some moderation, some moderation of destocking, but it still continues. You might remember in the second quarter, we said something like half of our reduction, half of our year-over-year reduction was due to destocking.

That moderated somewhat, so we did get an improvement on a year-over-year basis, though modest. So we saw some narrowing of that. I think for the hand tools business the on-the-street positioning is still pretty weak. So the improvement we saw had to do, and it was small, but the improvement we saw had to do with some ending, some ending of that destocking.

We should see that continue, but I predicted -- I thought in the first quarter it would end quicker than it did. So we still see this shrinkage. I'm not sure when it's going to end, but logically it has to. If you look at the distributor base, one encouraging thing for us is that we actually don't see many of our direct customers going away, so that is why we're not actually doing much in the way of capacity reduction.

We believe the market will come back once the economies become more robust. Most of my comments here have to do with SNA Europe, the hand tools business, the sort of on-the-street business. One small sign of good news we saw was that the equipment business, the infrastructure business around equipment and garage infrastructure, did show some improvement in this quarter. And so in places where you have strong technology argument, strong productivity demonstration, we saw in this quarter for the first time this year we were making inroads in selling.

So that might also be a positive. But these are very weak indicators. Like I have said in my remarks, I hate to make any judgments based on third quarters in Europe. So what we're saying going forward is mild encouragement out of Europe.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay. Fair enough. And then if we look at the tools business, can you speak to, in the past you've alluded to same-store sales, but maybe talk a little bit about what you are seeing in the dealer base in terms of how they are managing their own working capital?

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

We're seeing some small destocking in the dealer base and the franchisee base as well, our almost 3,500 franchisees in the United States, but that actually is often at our urging. We like to see them do that. I think I started saying back even in the fourth quarter of last year that we started out trying to urge them.

So a small factor in our results is that destocking. What we did see was some mild positivism, and we did see some big-ticket items come back.

One of the good things about the quarter was that I think how we interpret this is if you have a productivity story to sell, like in equipment or diagnostics, we're seeing people start to think that they may want to invest. That is how we're interpreting the better news in equipment and diagnostics in the quarter. I think tellingly, tool storage, which as you know, a little more discretionary, still stayed weak.

We saw a burst of hope, a burst of good news in the second quarter where tool storage up, but I think what we're seeing is a little thawing in North America with that regard.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay. And then switching -- perfect, thank you for that color.

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

Sure.

Jim Lucas - *Janney Montgomery Scott - Analyst*

And then switching gears, talking a little bit of the growth opportunities. You have given us a lot of color in the past about -- I mean obviously innovation is key and you have given us a little bit of color, but could you give us an update on the emerging market as well as market expansion, how those activities are going?

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

Emerging markets, what is happening to us in emerging markets is that we're growing very well in India and China where the GDPs are pretty strong. I think the GDP in China in the second quarter was 7.9% and in India it was 4.8%, and we're growing faster than that.

We're continuing to struggle, at least in the first three quarters, in any places like Indonesia, Philippines, Southeast Asia, and I could go market-by-market and give you reasons why those economies are having some difficulty. So that is the sort of landscaping around there.

We are getting a little bit of boost out of China and India. though. We feel pretty positive about that. But as you know, we're still developing our product lines in those areas. We're putting the physicals in place and we're developing product lines. Still, I remain pretty positive about that

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Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay. And you have talked of some of the mobile tool crib for the oil and gas side, the wind opportunities.

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

Yes, okay, sorry, what we saw there was -- embedded my remarks was we took a big down in industry in pretty much across the board. You might remember, I will just give you some history, is that all through last year in the fourth quarter I think we were up 14% year-over-year in that whole area, because we were penetrating that business.

We really saw some drop-off in the first and second quarter. In fact, year-over-year in the second quarter for the Industrial business was down 30%. This time it was down half of that, roughly half of that. So we were encouraged by that.

And we saw some sectors come back, education, some government investment, and we saw some upticks in some of the other places. But places like wind, I think places like mobile tool cribs, places like aerospace, still a little weak for us. We remain confident, though, we remain confident that that is going to come back.

If you look at things like, and when I say weak, let's say natural resources, which would be mobile tool cribs and mining and oil and gas, that was down versus the second quarter only about 1%. So the sequential was a little bit better. So we see some thawing there, but I hesitate to say anything, because there would be big winds, as in blowing of winds in that area.

What we see going forward in the Industrial business, I think, is further penetration of those segments, like aerospace, natural resources, power generation, education, government that will as the downturn moderates, we will overcome that weak economy, even in a down market.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay. Great. Thank you for that color.

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

Sure.

Operator

We'll go now to David Leiker with Robert W. Baird.

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

Good morning.

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

Good morning, David. How are you?

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

Doing just well, thank you. On the emerging markets, just a couple of follow-ups on there, Nick, if you could frame that for us.

It's a fairly new area for Snap-On, just a few years ago, but what is your expectations for what that part of the business could be if you look at five years or 10 years, when you look at other areas you have been involved in, what do you think that opportunity eventually is?

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

Well, my view is that we have about, oh, let's say, right now this business will at least be in the next 10 years as big as our European businesses. At least as big as our European businesses. That is my expectation.

What happens in emerging markets, David, in my experiences, what you actually see is a couple of cycles. You build the infrastructure. You set up your distribution. You start winning customers, you put product lines in place, you start to understand this and you kind of create a hockey stick sort of towards the end.

I hate to say it's a hockey stick, but that is they way it has worked in all of my experience in 11 years in Asia. Now when we look at the markets they are pretty strong. There is a lot of opportunity and we don't see the competition being that tough. It's very fragmented.

If you just look at the automotive industry, the car parts in the world, 70% of the world's growth in car part will occur in the next five years in emerging markets.

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

Yes.

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

So it's going to be very big for us. What you see us now is just building our physicals. We're putting the plants in place, we're engaging with customers and actually developing a product line is not a small task in doing this. So what that is what we're doing. I see it in the next 10 years being as big as Europe, at least.

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

If you take those four steps, infrastructure, distribution, product, customer, it sounds like you really have the first step in most of these markets, is that correct?

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

Right. Well, you are always building infrastructure, but we have a pretty good infrastructure in place now. We have the elements of an infrastructure in place now. Now what we need to do is start to engage stronger and broader product line, and develop our customer base. Now I'm not just talking -- when I am talking about this I am talking about China and Asia, Southeast Asia and China.

We are not so far along in India. We have to be better in India and we're not so far along in Russia. So we have to build infrastructure in those places as well. So if you are talking about China, if you're talking about Southeast Asia, if you're talking about North Asia, our infrastructure is pretty good.

We're building our product line and we have the rudiments of a distribution and we're starting to build the product line and engage customers. If you are talking about India and Russia, we're still developing our infrastructure.

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

Okay. Great. And then if we look at the seasonal pattern here where you have had an uptick. I guess if there is a way that you can characterize it across these three elements how much of it is just this inventory cycle and end up destocking or replenishment, if you will, but the end market is doing better in market share gain? Is there any way you can characterize it across the --

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

What were the three again? Sorry, you broke up, David, please.

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

End market, inventories and market share?

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

You know, I would say number one -- of course, probably everybody on a call like this would say number one was market share. But I think that we have evidence to believe that in our C&I businesses we are talking market share. If you look at our Equipment businesses, if you look at our Industrial businesses, even SNA Europe can make a case for that. So I think that is a fairly significant piece of it.

I think the destocking, the inventory correction, shrinkage is the lowest piece. In terms of market thawing, I would say that is second, of course. So, first, share gain. Second, markets thawing a little bit, because we do see some positives. For example, I will just give you a little bit of a thumbnail.

In North America in the Equipment business, we're not seeing such good -- we've seen continued difficulty in the chain stores like Goodyear and those people. We're not selling much to those people. But in terms of the independent garages we are starting to sell equipment where we weren't in the second quarter and in the first quarter. So that is a little about the of a comeback for us.

I don't know if you say market share -- I don't know where the breakdown is between market share and the thawing of the market. We're confident we're gaining market share and I suspect the market is thawing a little bit as well.

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

And just a clarification on that, on your big-ticket items, the Equipment side, how much do you think you are down from the peak, 60%, 70% maybe?

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

Oh, 60% or 70%?

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

Yes.

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

No. But, look, I will say that we're down, let's say, from the peak, probably about 25%.

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

Oh, that is all? Okay. And then one last item here on Financial Services, it looks like the loss that you reported here is certainly less than what we were expecting. I was just wondering if there is something that we missed there in terms of the cost allocation there and what our expectations should be going forward?

Marty Ellen - *Snap-on Incorporated - SVP, CFO*

We did a little better as even we predicted, principally because of a lower level of certain payments we anticipated making to CIT as the portfolio runs off. So our modeling was a little off there.

We did tell all of you to think about a $3 million to $5 million loss in the fourth quarter and I will remind that while that doesn't seem to be much of an improvement, you should not forget that included in the $5.3 million loss this quarter we still had gains on sales of contracts sold up through July 16 which were about $4 million. So had we not have had those the loss would have been closer to $9 million.

So you see about a $5 million improvement quarter-over-quarter which should sort of reconcile back based on the numbers we have gave you to about the ramp-up in interest yield.

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

Okay, perfect, thank you much.

Marty Ellen - *Snap-on Incorporated - SVP, CFO*

Sure.

Operator

(Operator Instructions) Our next question comes from Seaver Wang with [HSP] Capital.

Seaver Wang - *HSP Capital - Analyst*

Hi, good morning.

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

Good morning, Seaver.

Seaver Wang - *HSP Capital - Analyst*

I want to kind of go back to the emerging markets in terms of progress for the segments. Is C&I ahead of SNA or the other, where, I guess, Asia, in China, and, I guess, say, Russia, where you haven't really built it out yet. Can you give us an idea of progress for the segment and then maybe profitability compared to the overall Company?

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

Well, profitability versus the overall Company in emerging markets is lower because we are in investment mode. So that is several hundred basis points lower than the average. You can just take that to the bank pretty much as you view it. That, I think, is a given.

And then our growth in the emerging markets, all I will say is that in the quarter versus quarter two, we were up in emerging markets over quarter two, and we made some pretty strong double-digit growth rates in that quarter. Now it's a small base? We're not -- our Asia-Pacific business is under 10% of our business.

So it's not a very big piece of our business. And I already said that China and India are up and we're struggling a little bit in Southeast Asia. So that should give you some color around that.

Seaver Wang - *HSP Capital - Analyst*

All right. But is C&I kind of more thrust there or is it more independent technicians over there too?

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

No. It's a C&I trust. In other words, emerging markets are pretty much - in fact, emerging markets are all within C&I. Asia Pacific is within C&I.

Seaver Wang - *HSP Capital - Analyst*

Okay. And then, Marty, on the previous call you had also kind of given us an idea of what to expect for the first quarter of 2010, you said it was probably going to be break even. Is that still on schedule?

Marty Ellen - *Snap-on Incorporated - SVP, CFO*

That is still on track.

Seaver Wang - *HSP Capital - Analyst*

Okay. All right, that's it. Thank you.

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

All right.

Operator

We'll go now to Steve Surrell with Conning Asset Management.

Steve Surrell - *Conning Asset Management - Analyst*

Good morning.

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

Good morning.

Steve Surrell - *Conning Asset Management - Analyst*

I am just wondering as you think about this finance business, what kind of leverage you are using internally for that business?

Marty Ellen - *Snap-on Incorporated - SVP, CFO*

Steve, good morning, Marty Ellen. Yes, you'll see in the -- our targeted leverage, which is based upon our assessment of the loss experience in the portfolio, and in an effort to try to create a capital structure inside Financial Services that we think if it were sort of stand alone rated it could support an A rating would be 5:1 leverage.

When you look at this morning's press release and you look at the separate balance sheet for the global Financial Services business you will, of course, see lower leverage, about $92 million in debt and $172 million of equity. So what you're really looking at there is a mixture, that is 5:1 leverage, but only on the U.S. assets. The international assets are least, for the time being, effectively unlevered. But we will probably change that going forward.

Steve Surrell - *Conning Asset Management - Analyst*

Okay. And will you -- can you provide for this quarter or going forward some delinquency or nonperformer or write-off kind of figure?

Marty Ellen - *Snap-on Incorporated - SVP, CFO*

We have given that in the slides this morning. And you may not have seen those. But it is Slide 11.

Steve Surrell - *Conning Asset Management - Analyst*

Okay. Thank you.

Operator

And Mr. Ellen, we have no other questions in the queue at the moment. I would like to turn the call back over to you for any additional or closing remarks.

Marty Ellen - *Snap-on Incorporated - SVP, CFO*

We thank you all for joining us this morning and for your interest in Snap-On. Good day.

Operator

Ladies and gentlemen, that does conclude today's conference. Once again, thank you for your participation.
