SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

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

For quarterly period ended April 4, 1998

Commission File Number 1-7724

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

| | |
|---|---|
| Delaware | 39-0622040 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 10801 Corporate Drive, Kenosha, Wisconsin | 53141-1430 |
| (Address of principal executive offices) | (zip code) |

Registrant's telephone number, including area code: (414) 656-5200

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

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

| Class | Outstanding at May 2, 1998 |
|---|---|
| Common stock, $1 per value | 59,186,810 shares |

## SNAP-ON INCORPORATED

## INDEX

PART I. FINANCIAL INFORMATION

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

| | Thirteen Weeks Ended April 4, 1998 | Thirteen Weeks Ended March 29, 1997 |
|---|---|---|
| Net sales | $426,429 | $375,299 |
| Cost of goods sold | 214,884 | 182,332 |
| Gross profit | 211,545 | 192,967 |
| Operating expenses | 170,832 | 151,319 |
| Operating profit before net finance income | 40,713 | 41,648 |
| Net finance income | 16,979 | 17,465 |
| Operating earnings | 57,692 | 59,113 |
| Interest expense | (4,033) | (4,381) |
| Other income (expense) - net | (650) | (995) |
| Earnings before income taxes | 53,009 | 53,737 |
| Income taxes | 19,083 | 19,883 |
| Net earnings | $ 33,926 | $ 33,854 |
| Earnings per weighted average common share - basic | $ .57 | $ .56 |
| Earnings per weighted average common share - diluted | $ .56 | $ .55 |
| Weighted average common shares outstanding - basic | 59,894 | 60,855 |
| Effect of dilutive options | 863 | 823 |
| Weighted average common shares outstanding - diluted | 60,757 | 61,678 |
| Dividend declared per common shares | $ .21 | $ .20 |

The accompanying notes are an integral part of these statements.

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

| | (Unaudited) April 4, 1998 | January 3, 1998 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 8,990 | $ 25,679 |
| Accounts receivable, less allowances | 548,432 | 539,589 |
| Inventories | | |

| | | |
|---|---|---|
| Finished stock | 399,180 | 366,324 |
| Work in process | 46,086 | 42,384 |
| Raw materials | 74,291 | 66,008 |
| Excess of current cost over LIFO cost | (98,902) | (101,561) |
| Total inventory | 420,655 | 373,155 |
| Prepaid expenses and other assets | 92,516 | 83,286 |
| Total current assets | 1,070,593 | 1,021,709 |
| Property and equipment | | |
| Land | 23,817 | 23,980 |
| Buildings and improvements | 163,569 | 163,596 |
| Machinery and equipment | 350,254 | 341,875 |
| | 537,640 | 529,451 |
| Accumulated depreciation | (271,134) | (263,686) |
| Total property and equipment | 266,506 | 265,765 |
| Deferred income tax benefits | 57,104 | 55,699 |
| Intangible and other assets | 267,683 | 298,184 |
| Total assets | $1,661,886 | $1,641,357 |

The accompanying notes are an integral part of these statements.

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

| | (Unaudited) April 4, 1998 | January 3, 1998 |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | $ 95,939 | $ 91,553 |
| Notes payable and current maturities of long-term debt | 58,165 | 23,951 |
| Accrued compensation | 33,234 | 43,712 |
| Dealer deposits | 42,142 | 43,848 |
| Accrued income taxes | 28,963 | 14,831 |
| Deferred subscription revenue | 29,209 | 29,265 |
| Other accrued liabilities | 103,086 | 105,370 |
| Total current liabilities | 390,738 | 352,530 |
| Long-term debt | 204,191 | 151,016 |
| Deferred income taxes | 12,173 | 11,824 |
| Retiree health care benefits | 87,402 | 86,936 |
| Pension and other long-term liabilities | 101,019 | 146,914 |
| Total liabilities | 795,523 | 749,220 |
| 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 - April 4, 1998 - 66,523,085 shares January 3, 1998 - 66,472,127 shares | 66,523 | 66,472 |
| Additional contributed capital | 83,896 | 82,758 |
| Retained earnings | 960,245 | 938,963 |

| | | |
|---|---|---|
| Foreign currency translation adjustment | (30,825) | (30,385) |
| Treasury stock at cost - 7,111,313 and 5,956,313 shares | (213,476) | (165,671) |
| Total shareholders' equity | 866,363 | 892,137 |
| Total liabilities and shareholders' equity | $1,661,886 | $1,641,357 |

The accompanying notes are an integral part of these statements.

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

| | Thirteen Weeks Ended April 4, 1998 | Thirteen Weeks Ended March 29, 1997 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net earnings | $ 33,926 | $ 33,854 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 8,561 | 7,829 |
| Amortization | 2,108 | 1,383 |
| Deferred income taxes | (361) | (9,535) |
| (Gain) on sale of assets | (63) | (39) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in receivables | (9,121) | 1,395 |
| (Increase) in inventories | (47,966) | (28,272) |
| (Increase) decrease in prepaid and other assets | 32,670 | (4,268) |
| Increase in accounts payable | 4,691 | 6,392 |
| Increase (decrease) in accruals and other liabilities | (50,089) | 16,378 |
| Net cash (used in) provided by operating activities | (25,644) | 25,117 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (10,034) | (11,459) |
| Acquisitions of businesses | (10,102) | (48,965) |
| Disposal of property and equipment | 314 | 368 |
| Net cash used in investing activities | (19,822) | (60,056) |
| FINANCING ACTIVITIES | | |
| Payment of long-term debt | (359) | (7,755) |
| Increase in long-term debt | 5,236 | - |
| Increase short-term borrowings-net | 83,169 | 46,861 |
| Purchase of treasury stock | (47,805) | (417) |
| Proceeds from stock plans | 1,189 | 2,481 |
| Cash dividends paid | (12,644) | (12,173) |
| Net cash provided by financing activities | 28,786 | 28,997 |
| Effect of exchange rate changes | (9) | (279) |
| Decrease in cash and cash equivalents | (16,689) | (6,221) |
| Cash and cash equivalents at beginning of period | 25,679 | 15,350 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $ 8,990 | $ 9,129 |

The accompanying notes are an integral part of these statements.

SNAP-ON INCORPORATED
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

1. This report should be read in conjunction with the consolidated financial statements and related notes included in Snap-on Incorporated's Annual Report for the year ended January 3, 1998.

   In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to a fair statement of financial condition and results of operations for the thirteen weeks ended April 4, 1998 have been made. Management also believes that the results of operations for the thirteen weeks ended April 4, 1998 are not necessarily indicative of the results to be expected for the full year.

2. Income tax paid for the thirteen-week period ended April 4, 1998 and March 29, 1997 was $5.3 million and $6.6 million.

3. Interest paid for the thirteen-week period ended April 4, 1998 and March 29, 1997 was $5.8 million and $2.6 million.

4. During the first quarter, the Corporation acquired an additional 10 percent interest in The Thomson Corporation's Mitchell Repair Information business. The Corporation is obligated to purchase the remaining 40 percent of Mitchell Repair Information Company within the next four years.

   Subsequent to quarter end, a subsidiary of the Corporation commenced a tender offer for all outstanding common shares of Hein-Werner Corporation at a net price of $12.60 per share in cash. The offer is scheduled to expire on June 1, 1998 unless extended. Consummation of the offer is subject to there having been validly tendered, and not withdrawn prior to the expiration of the offer, a number of shares which constitute at least 66-2/3% of the shares outstanding on a fully diluted basis, the expiration or termination of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, and other customary conditions.

5. Earnings per share calculations were computed by dividing net earnings by the corresponding weighted average number of common shares outstanding for the period. The dilutive effect of the potential exercise of outstanding options to purchase shares of common stock is calculated using the treasury stock method.

6. In the first quarter of 1998, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Total comprehensive income, consisting of net earnings and foreign currency translation adjustments, amounted to $33.5 million and $26.1 million for the thirteen-week period ended April 4, 1998 and March 29, 1997.

   The Financial Accounting Standards Board (FASB) has issued two accounting pronouncements which the Corporation will adopt in the fourth quarter of 1998. FASB Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" and Statement No. 132 "Employers' Disclosures about Pensions and Other Postretirement." The Corporation is currently evaluating the impact of these pronouncements; however, it does not anticipate that the adoption of these statements will have a material impact on results of operations or financial position.

7. The Corporation uses derivative instruments to manage well-defined interest rate and foreign currency exposures. The Corporation does not use derivative instruments for trading purposes. The criteria used to determine if hedge accounting treatment is appropriate are

(i) the designation of the hedge to an underlying exposure, (ii) whether or not overall risk is being reduced and (iii) if there is a correlation between the value of the derivative instrument and the underlying obligation.

Interest Rate Derivative Instruments:

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

Foreign Currency Derivative Instruments:

The Corporation has operations in a number of countries and has intercompany transactions among them and, as a result, is exposed to changes in foreign currency exchange rates. The Corporation manages most of these exposures on a consolidated basis, which allows netting certain exposures to take advantage of any natural offsets. To the extent the net exposures are hedged, forward contracts are used. Gains and/or losses on these foreign currency hedges are included in income in the period in which the exchange rates change. Gains and/or losses have not been material to the consolidated financial statements.

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

   The State of Texas subsequently terminated the emissions program described in the contracts. The Tejas Companies filed for bankruptcy, and commenced litigation in state and federal court against the TNRCC and related entities. The Corporation has recorded as assets the net amounts paid under the guaranty, which are expected to be received from the State of Texas pursuant to a settlement agreement approved by the U.S. Bankruptcy Court. These net receivables total $55.8 million as of April 4, 1998 and are included in Intangible and Other Assets on the accompanying Consolidated Balance Sheets. The Corporation expects to receive $19.0 million toward the net receivable in settlement payments by May 31, 1999, which payments have been appropriated by the Texas Legislature. The Corporation expects to receive further payments in an amount sufficient to satisfy the balance of the net receivables by August 31, 2001, which payments are subject to appropriation. The Corporation believes that ultimate recovery of the net receivables is probable.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

Overview: The Corporation posted increases in first quarter sales, net earnings and earnings per share. Net earnings for the first quarter of 1998 increased .2% over the year ago quarter on a net sales increase of 13.6%. Earnings per share for the first quarter increased 1.8% over the 1997 comparable period.

Sales: Net sales for the first quarter 1998 increased 13.6%. The negative effect of foreign currency translation reduced the sales increase by two percentage points. Net sales for the quarter were a record $426.4 million, up from $375.3 million in the first quarter of 1997.

North American sales for the first quarter of 1998 were $325.3 million, an increase of 15.7% over first quarter 1997 sales of $281.2 million. Excluding acquisitions, sales rose 14%. Strong hand tool sales, revenues from emissions-testing equipment, and growth in ShopKey information and shop management software all contributed to the increase. In addition, sales in both the industrial channel and the Equipment Solutions equipment facilitation and distribution business grew at a faster rate than that of the region overall.

European sales for the first quarter of 1998 were $83.3 million, an increase of 10.6% over first quarter 1997 sales of $75.3 million. In local currency, sales increased 17%. Acquisitions and higher tool sales in most countries were positive contributors. Excluding acquisitions, sales were 14% lower because of the negative effects of currency translation and difficult comparisons against the year-ago period.

Other sales for the first quarter of 1998 were $17.8 million, a decrease of 5.4% from first quarter 1997 sales of $18.8 million. Sales in local currency rose 5%, with gains reported in both Japan and Australia. Weakness in the developing economies of Asia hurt results in this region; however, the Corporation's present exposure to the economic uncertainty in this region is not material to its consolidated results or financial position.

Earnings: Net earnings for the first quarter were $33.9 million, compared with $33.8 million for the comparable 1997 period. Diluted per share earnings rose 1.8% to $.56, compared with $.55 per share in the first quarter a year ago while basic per share earnings also rose 1.8% to $.57, compared with $.56 per share in the first quarter a year ago.

Operating expenses: As a percentage of net sales, first quarter total operating expenses decreased to 40.1% in 1998 from 40.3% in the same period of 1997.

Finance income: Finance income for the first quarter of 1998 was $17.0 million, a decrease of 2.8% from first quarter 1997 finance income of $17.5 million. Growth in extended credit financings, in origination fees from third-party lease transactions, and in financing programs outside the United States offset much of the decrease in income related to the asset securitizations and lease portfolio sale effected in 1997.

FINANCIAL CONDITION

Liquidity: Cash and cash equivalents decreased to $9.0 million at the end of the first quarter from $25.7 million at the end of 1997. Working capital increased to $679.9 million at first quarter end, from $669.2 million at the end of 1997. During the quarter, the Corporation raised its commercial paper program to $175 million, which is supported by revolving credit facilities.

In September 1994, the Corporation filed a registration statement with the Securities and Exchange Commission that allows the Corporation to issue from time to time up to $300 million of unsecured indebtedness. In October 1995, the Corporation issued $100 million of its notes to the public. The shelf registration gives the Corporation financing flexibility to operate the business.

The Corporation believes it has sufficient sources of liquidity to support working capital requirements, finance capital expenditures and pay dividends.

Accounts receivable: Accounts receivable increased 1.6% to $548.4 million at the end of the first quarter, compared with $539.6 million at the end of 1997.

The majority of the Corporation's accounts receivable involve customers' extended credit and lease purchases of higher-value products. Other receivables include those from dealers, industrial customers, and government entities.

Inventories: Inventories increased 12.7% to $420.7 million in the 1998 first quarter, compared with $373.2 million at the end of 1997. Total inventory includes emissions-testing equipment which is expected to be delivered over the next several quarters and a significantly higher build of air conditioning equipment for this year's season, reflecting the company's stronger presence in this category.

Liabilities: Total short-term and long-term debt was $262.4 million at the end of the first quarter, compared with $175.0 million at the end of 1997. Funding requirements for the repurchase of common stock, an acquisition and working capital needs were responsible for the higher debt levels.

Average shares outstanding: Average shares outstanding for diluted EPS in 1998's first quarter were 60.8 million shares versus 61.7 in last year's first quarter. For basic EPS, average shares were 59.9 million compared with 60.9 million in 1997.

Share repurchase: On June 27, 1997, the Corporation's board of directors authorized the repurchase of $100 million of the Corporation's common stock over a two-year period. In 1996, the Corporation's board of directors authorized the repurchase of stock in an amount equivalent to that necessary to prevent dilution created by shares issued for stock options, employee and dealer stock purchase plans, and other corporate purposes. The Corporation repurchased 1,155,000 shares of its common stock in the first quarter of 1998.

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

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

Safe Harbor: Statements in this document that are not historical facts, including statements (i) that include the words "believes," "expects," "anticipates" or "estimates" or words of similar importance with reference to the Corporation or management, (ii) specifically identified as forward-looking, or (iii) describing the Corporation's or management's future plans, objectives or goals, are forward-looking statements. The Corporation or its representatives may also make similar forward-looking statements from time to time orally or in writing. The Corporation cautions the reader that these statements are subject to risks, uncertainties and other factors that could cause (and in some cases have caused) actual results to differ materially from those described in any such statement. Those important factors include the delay in implementation of State emissions programs or delay in delivery of products related to such programs, a weakening of sales of hand tools and other products in those states where the Corporation is undertaking a large emissions-testing equipment sales and service effort, and the achievement of productivity improvements and cost reductions. These factors may not constitute all factors that could cause actual results to differ materially from those discussed in any forward-looking statement. The Corporation operates in a continually changing business environment and new factors emerge from time to time. The Corporation cannot predict such factors nor can it assess the impact, if any, of such factors on the Corporation or its results. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results.

## PART II. OTHER INFORMATION

Item 6: Exhibits and reports on Form 8-K

Item 6(a): Exhibits

| | |
|---|---|
| Exhibit 10(a) | Amended and Restated Snap-on Incorporated Directors' 1993 Fee Plan as of April 24, 1998 |
| Exhibit 27 | Financial Data Schedule |

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

| Date Filed | Date of Report | Item |
|---|---|---|
| February 20, 1998 | February 17, 1998 | Item 5. The Corporation and Tejas Testing Technologies completed an agreement, approved by the U.S. Bankruptcy Court in Austin, Texas, that fully satisfied the Corporation's liability related to a loan guaranty by the Corporation of certain Tejas lease obligations. |
| March 17, 1998 | March 17, 1998 | Item 5. The Corporation filed those portions of its fiscal 1997 Annual Report to Shareholders that the Corporation has incorporated by reference into and filed as Exhibit 13 to its Annual Report on Form 10-K for the fiscal year ended January 3, 1998. |

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 persons.

SNAP-ON INCORPORATED

Date: May 19, 1998

/s/ R. A. Cornog
R. A. CORNOG
(Chairman, President and Chief Executive Officer)

Date: May 19, 1998

/s/ N. T. Smith
N. T. SMITH
(Principal Accounting Officer and Controller)

EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 10(a) | Amended and Restated Snap-on Incorporated Directors' 1993 Fee Plan as of April 24, 1998 |
| 27 | Financial Data Schedule |

Amended and Restated
Snap-on Incorporated
Directors' 1993 Fee Plan
(as amended through April 24, 1998)

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 Minimum Grants and 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(b) 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 Minimum Grants and Elective Grants.

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

(m) "Share Election" shall have the meaning set forth in Section 5(b) 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) Minimum Grant. Subject to Section 5(e) hereof, each Director shall automatically receive (subject to a Deferral Election) a number of whole shares of Common Stock equal in value to fifty percent (50%) of his or her Fees earned in each calendar year (the "Minimum Grants"). Such shares of Common Stock (and cash in lieu of fractional shares) shall be transferred in accordance with Section 5(c) hereof.

(b) Elective Grant. Subject to Section 5(e) hereof, each Director may make an election (the "Share Election") to receive (subject to a Deferral Election) any or all of his or her remaining 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(c) 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.

(c) Transfer of Shares. Shares of Common Stock issuable to a Director with respect to Minimum Grants and 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 (1) in respect of a Minimum Grant, shall be determined by dividing (a) an amount equal to fifty percent (50%) of the Director's Fees payable during the applicable calendar month, by (b) the Fair Market Value of a share of Common Stock on the last business day of such calendar month, and (2) in respect of an Elective Grant, shall be determined by dividing (x) the dollar amount of the Director's Fees payable during the applicable calendar month to which the Share Election applies, by (y) 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.

(d) 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.

(e) 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.

(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(g) 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 (not later than the Director's 75th birthday) 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. Effect of Certain Changes in Capitalization. If there is any change in the number or class of shares of Common Stock through the declaration of stock dividends, or recapitalization resulting in stock splits, or combinations or exchanges of such shares or similar corporate transactions, the maximum number or class of shares available under the Plan, the number or class of shares of Common Stock to be delivered hereunder and each Director's Share Account shall be proportionately adjusted by the Committee to reflect any such change in the number or class of issued shares of Common Stock; provided, however, that the number or class of shares of Common Stock to be delivered and each Director's Share Account shall be subject to only such adjustment as shall be necessary to maintain the proportionate interest of the Director and preserve, without exceeding, the value reflected by the Director's Share Account.

8. Change of Control.

(a) A "Change of Control" of the Company shall be deemed to have occurred if:

(1) any "Person" (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as modified and used in Sections 13(d) and 14(d) thereof, except that for purposes of this Section 8, the term "Person" shall not include (A) the Company or any of its subsidiaries, (B) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its subsidiaries, (C) an underwriter temporarily holding securities pursuant to an offering of such securities, or (D) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock in the Company) is or becomes the "Beneficial Owner"(as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 25% or more of either the then outstanding shares of common stock of

the Company or the combined voting power of the Company's then outstanding voting securities; or

(2) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on January 1,1996, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on January 1, 1996 or whose appointment, election or nomination for election was previously so approved; or

(3) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation or approve the issuance of voting securities of the Company in connection with a merger or consolidation of the Company (or any direct or indirect subsidiary of the Company) pursuant to applicable stock exchange requirements, other than (1) 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 (2) 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 an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (in one transaction or a series of related transactions within any period of 24 consecutive months), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 75% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportions as their ownership of the Company immediately prior to such sale.

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

(b) Upon the occurrence of a Change of Control:

(i) All Share Units credited to a Share Account shall be converted into cash in an amount equal to the number of Share Units multiplied by the Fair Market Value, and together with all Deferred Amounts credited to a Cash Account shall be transferred as soon as practicable to each Director; and

(ii) Notwithstanding anything herein to the contrary, Fees earned in respect of the calendar quarter in which the Change of Control occurs, shall be paid in cash as soon as practicable.

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 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; and, provided further, that the provisions of Section 5(a) hereof shall not be amended more than once every six months, other than to comport with changes in the Internal Revenue Code of 1986, as amended, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder. Notwithstanding the foregoing, no amendment shall affect adversely any of the rights of any Director (including without limitation the rights a Director would have under Section 8 if a Change of Control were to occur), 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.

<ARTICLE> 5
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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF SNAP-ON INCORPORATED AS OF AND FOR THE THIRTEEN WEEKS ENDED APRIL 04, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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