

SNAP-ON INCORPORATED

1994 FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1994  
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.)

2801 - 80th Street, Kenosha, Wisconsin

53141-1410

-----  
(Address of principal executive offices)

-----  
(ZIP Code)

Registrant's telephone number, including Area Code - (414) 656-5200

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of Exchange on which registered
-----	-----
Common stock, \$1 par value	New York Stock Exchange
Preferred stock purchase rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in a definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K \_\_\_\_\_.

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of February 28, 1995, with a closing price per share on that date of \$34.00.

Common Stock, Par Value \$1 Per Share, \$1,435,397,074

Indicate the number of shares outstanding of each of the registrant's classes of

common stock, as of February 28, 1995.

Common Stock, Par Value \$1 Per Share, 42,217,561 Shares

Shares Preferred Stock Purchase Rights, NONE.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Corporation's Annual Report to Shareholders for the fiscal year ended December 31, 1994, are incorporated by reference into Parts I, II and IV of this report.

Portions of the Corporation's Proxy Statement, dated March 24, 1995, prepared for the Annual Meeting of Shareholders scheduled for April 28, 1995, are incorporated by reference into Part III of this report.

Exhibit Index Page 15

Page 1 of 99 Pages

SNAP-ON INCORPORATED  
1994 FORM 10-K

TABLE OF CONTENTS

	Page
-----	
PART I	
Item 1. Business	3
Item 2. Description of Properties	9
Item 3. Legal Proceedings	9
Item 4. Submission of Matters to a Vote of Security Holders	9
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters	10
Item 6. Selected Financial Data	10
Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations	10
Item 8. Financial Statements and Supplementary Data	10
Item 9. Disagreements on Accounting and Financial Disclosure	10
PART III	
Item 10. Directors and Officers of Registrant	10
Item 11. Executive Compensation	10
Item 12. Security Ownership of Certain Beneficial Owners and Management	10
Item 13. Certain Relationships and Related Transactions	10
PART IV	
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K	11
Auditor's Reports	12
Signature Pages	13
Financial Schedule	16

PART I

ITEM 1: BUSINESS OVERVIEW

Snap-on Incorporated (the "Corporation") was incorporated under the laws of the State of Wisconsin in 1920 and reincorporated under the laws of the State of Delaware in 1930. Its corporate headquarters is located in Kenosha, Wisconsin.

The Corporation, which is in a single line of business, is a leading manufacturer and distributor of high-quality hand tools, power tools, tool storage products, diagnostics and shop equipment and information services, primarily for use by professional technicians. In addition to individual automotive technicians, shop owners and other professional tool users, the Corporation's products are marketed to industrial and governmental entities, as well as to original equipment manufacturers.

The Corporation is a multinational corporation with operations in several countries, including the United States, Australia, Belgium, Brazil, Canada, France, Germany, Japan, Mexico, Puerto Rico, the Netherlands, New Zealand, Taiwan and the United Kingdom.

The Corporation conducts its business through four principal operating groups:

- SNAP-ON TOOLS focuses on the development and sale of products and services through the Corporation's worldwide dealer direct sales programs to automotive and transportation technicians. Subsidiaries manage dealer operations in several countries outside the United States.

- SNAP-ON DIAGNOSTICS focuses on the development and sale of diagnostics and shop equipment to automotive service and repair shops. Subsidiaries associated with this operating group are: Sun Electric Corporation ("Sun"), a leading producer of diagnostics and service equipment; Balco, Inc., a developer of engine diagnostic and wheel-balancing equipment; and Wheeltronic Ltd. ("Wheeltronic"), a manufacturer of hoists and lifts for automotive service shops;

- SNAP-ON INDUSTRIAL focuses on the development and sale of industrial tools and equipment through a direct sales force as well as through industrial distributors and other channels. Subsidiaries associated with this operating group include: J. H. Williams Company ("Williams"), a manufacturer of hand tools; A.T.I. Tools, Inc. ("ATI"), a producer of tools and equipment for aerospace and industrial applications; and Sioux Tools, Inc. ("Sioux"), a manufacturer of power tools;

- SNAP-ON FINANCIAL SERVICES, INC., through its Snap-on Credit Corporation subsidiary, is responsible for certain credit and non-credit services used to support sales and provide dealer financing options. Credit programs support the sale of the Corporation's products and services, especially higher-value products such as diagnostics and other shop equipment.

In recent years, the Corporation has expanded its product line and marketing programs to address additional customer tool and equipment needs and to expand internationally. The Corporation also has entered into agreements with and has made investments (including minority investments) in information and technology firms to strengthen its position as a leading supplier of hardware and software for automotive service and repair.

In addition to direct sales to individual technicians, shop owners, industrial and other customers at their places of business through mobile van dealers and employee sales representatives, other methods of marketing and distribution include both direct and indirect sales to industrial and government customers and indirect sales through foreign distributors.

#### PRODUCTS AND SERVICES

The Corporation offers a broad product line which it divides into four groups -- hand tools, power tools, tool storage products, and diagnostics and shop equipment.

Following is a discussion of the four product groups:

HAND TOOLS -- Includes wrenches, screwdrivers, sockets, pliers, ratchets and other similar products; and instruments developed for medical applications and for the manufacture and servicing of electronic equipment. The Stanley Works, Danaher Corporation, Cooper Industries and Strafor Facom are some of the many

manufacturers of hand tools.

POWER TOOLS -- Includes pneumatic (air), cord-free (battery) and corded (electric) tools such as impact wrenches, ratchets, chisels, drills, sanders, polishers and similar products. Makita Corporation, Atlas Copco AB, Ingersoll-Rand Company and The Black & Decker Corporation are some of the many manufacturers in this product category.

TOOL STORAGE PRODUCTS -- Includes tool chests, roll cabinets and other similar products for automotive, industrial, aerospace and other storage applications. Stanley, Danaher, Waterloo Industries (a division of American Brands, Inc.) and Kennedy Manufacturing Company are some of the many manufacturers of tool storage products.

3

DIAGNOSTICS AND SHOP EQUIPMENT -- Includes hardware and software solutions for diagnosis and service of automotive and industrial equipment. Products include: engine and emissions analyzers, transmission troubleshooting equipment, air conditioning service equipment, brake service equipment, wheel balancing and alignment equipment, battery chargers and lifts and hoists used in repair shops. Also included are service and repair information services. Automotive Diagnostics (a division of SPX Corporation), Hunter Engineering Company, Inc., Robert Bosch GmbH and Danaher are among the many other manufacturers in this market.

The Corporation supports the sale of its diagnostic and shop equipment by offering training programs to technician customers. These programs offer certification in both specific automotive technologies and in the application of specific diagnostic equipment developed and marketed by the Corporation and its subsidiaries.

The Corporation exited the market for centralized automotive emissions testing services in 1994 with the sale of its Systems Control subsidiary, acquired as part of the Sun purchase in 1992.

Table 1 shows the approximate percentage of total consolidated sales for each of the Corporation's product groups in each of the past three years, including the contributions of Sun in the fourth quarter of 1992 and full year 1993 and 1994.

TABLE 1 CONSOLIDATED SALES

PRODUCT GROUP % OF SALES	1994	1993	1992
Hand Tools	38%	37%	43%
Power Tools	7%	7%	8%
Tool storage products	11%	11%	13%
Diagnostics/Shop	44%	45%	36%

The Corporation believes this analysis is representative of its consolidated net sales mix worldwide.

Sales in the diagnostics/shop equipment product group include technical training services and revenues for contracted emissions-testing services for various governmental entities prior to the sale of Systems Control in 1994.

MARKETS SERVED

GEOGRAPHIC MARKETS SERVED -- Products and services are marketed and distributed

in more than 100 countries directly through the Snap-on and SNAP-ON/SUN TECH SYSTEMS sales organizations or indirectly through industrial distributors and foreign distributors. Table 2 shows the approximate percentage of sales by geographic market for the past three years.

TABLE 2 CONSOLIDATED SALES

MARKETS % OF SALES	1994	1993	1992
North American Sales	79%	78%	85%
European Sales	16%	18%	11%
Other Sales	5%	4%	4%

The acquisition of Sun in the fourth quarter of 1992 significantly raised the percentage of sales outside North America. For further information on the Corporation's international and domestic operations, see Note 13 on page 36 of the Corporation's 1994 Annual Report, incorporated herein by reference.

MARKET SECTORS SERVED -- The Corporation markets and distributes primarily to two market sectors, in both the U.S. and internationally:

- The professional market of individual technicians as well as automotive service and repair shops, including independent, chain and dealership facilities.
- The industrial market for tools and equipment used in manufacturing and industrial maintenance and repair, as well as tools included with products sold by original equipment manufacturers ("OEM") as instrumentation or used in OEM and distributor equipment service programs.

Table 3 shows the approximate percentage of total sales for the last three years for these sectors as well as for sales to foreign distributors, who sell to the same types of customers the Corporation serves in the United States.

TABLE 3 CONSOLIDATED SALES

MARKET SECTOR % OF SALES	1994	1993	1992
Professional	82%	83%	79%
Industrial	17%	15%	18%
Foreign Distributor	1%	2%	3%

#### PROFESSIONAL SECTOR

The professional sector has two primary customer groups: professional technicians who purchase tools and equipment for themselves, and shop owners and managers who purchase equipment for use by multiple technicians within a service or repair facility. Following is a discussion of the characteristics of these customers and the Corporation's position in their markets.

PROFESSIONAL TECHNICIANS -- The Corporation markets its products and services to professional technicians worldwide primarily through its dealer van distribution system. It provides innovative tools and equipment to meet technicians' evolving needs, as well as technical sales support and training to meet the information and technology needs of the professional technician.

Professional technician customers demand the highest quality tools and equipment in terms of function, reliability, productivity, appearance and service. Most professional technicians, particularly in the transportation service industry, are paid based on a flat rate and buy their own tools. Thus, these customers value the time-and-place utility offered by the Corporation's mobile van distribution system and productivity advantages of professional-quality tools.

The Corporation's success with professional technicians is believed to be due to its high-quality products, its extensive product line, its dealer and dealer-related marketing and sales programs, its frequent call schedule, the availability of financing for major purchases, product warranties and service and repair programs.

The Corporation has a strong presence in this sector, although its U.S. and worldwide market shares cannot accurately be determined. Stanley and Danaher are active in the mobile dealer van channel through their MAC Tools and Matco operations, respectively. Other van operations include Vulcan and The Cornwell Quality Tools Company. Additionally, technicians purchase products from other sources, including wholesalers, hardware stores and retail outlets such as Sears Roebuck and Co.

For the reasons stated earlier, the Corporation's focus in this sector generally is on service and product quality, performance and productivity. Other suppliers, outside the dealer van channel, generally compete on price.

Major challenges for the Corporation and the industry include slower automotive technician turnover, improved vehicle quality which reduces service and repair demand, general economic conditions and increased competition within the mobile dealer van channel during the past decade.

SHOP OWNERS -- Through its dealers and sales representatives, the Corporation serves owners and managers of shops where technicians work with tools, equipment and diagnostic products.

The needs of these customers are increasingly driven by technological innovation and government regulation. In order to remain competitive, shop owners must purchase a growing array of sophisticated, specialized equipment that enables their shops to service and repair computerized automotive systems and to comply with vehicle environmental and safety regulations. The ability to recruit and retain professional technicians also depends on the quality and sophistication of the equipment and service and repair information available in shops.

The Corporation is continually expanding its line of automotive diagnostic and shop equipment to address needs in this market sector, and to expand its customer base and grow its sales.

#### INDUSTRIAL SECTOR

The Corporation markets its products to a wide variety of industrial customers, including industrial maintenance and repair facilities; manufacturing and assembly operations; industrial distributors; government facilities; schools; and original equipment manufacturers who require instrumentation or service tools and equipment for their products.

Customers in the industrial sector have different needs and base their purchase decisions on a variety of factors. Small- to mid-sized manufacturers and industrial and government maintenance and repair shops and motor pools often prefer the consultative advantages of direct selling and make their purchase decisions based on quality, breadth of product offering, and service. Larger manufacturing operations often prefer the economies and efficiencies of buying through industrial distributors. For such large, high-volume customers, key purchase factors include competitive pricing, one-stop shopping, single point

invoicing, and on-time delivery.

In addition to tool and equipment manufacturers previously listed, companies involved in the industrial sector include industrial distribution houses such as W.W. Grainger, Inc. and McMaster Carr Supply Company. While the Corporation's tool and storage equipment lines are among the largest offered for industrial applications, they are only two of several categories of products these other companies offer. Additionally, the Corporation's ability to provide value-added services such as tool control programs, training, and special tools in its direct-sales segment should also result in market penetration.

Major challenges in the industrial market include a highly competitive, cost-conscious environment, as well as an increase in new technologies. The Corporation believes it is currently a relatively small participant in the market for industrial tools and equipment. However, the Corporation also believes its ability to address the industrial distribution channel through Williams and Sioux will result in increased market penetration over the next decade.

5

## DISTRIBUTION

The Corporation serves customers through direct and indirect sales channels, each of which are described more fully below.

### SNAP-ON TOOLS

#### DEALERS

Marketing worldwide to professional technicians and shop owners is conducted primarily through the mobile dealer van system. Dealers operate from van-type vehicles, which house their inventory, and sell the Corporation's products to customers, primarily auto technicians and shop owners, at their places of business. Dealers purchase the products made available to them at a discount from suggested retail prices and resell them to customers at prices of the dealers' choosing. Revolving account sales typically comprise a significant percentage of dealer sales.

The Corporation's dealers are entitled to purchase and sell SNAP-ON brand products and products contained in the SNAP-ON catalogs; the Corporation also sells and/or distributes its products through a national accounts program. In the U.S., SUN brand products are sold only through the SNAP-ON/SUN Tech Systems sales force (Tech Reps), which is described more fully later, and a national accounts program. Internationally, SUN products are sold by subsidiaries and through distributors. Dealers are encouraged to provide sales leads to Tech Reps. Under certain conditions, dealers participate in the proceeds of sales of SUN brand equipment and sales made under national account programs.

Although some dealers have sales areas defined by other methods, most dealers and all new U.S. dealers are provided a list of calls -- addresses or places of business -- which serve as the basis of the dealer's sales route. Weekly dealer calls on customers for both service and sales solicitation are essential elements of the Corporation's dealer-marketing program.

#### SALES REPRESENTATIVES

The Corporation makes it possible for prospective dealer candidates to work as employee sales representatives for up to one year prior to making an investment in a franchise (subject to the Corporation's approval). This program is particularly useful for candidates who lack the financial resources to become franchisees or who are not certain of their aptitude for mobile van sales work.

As employees, sales representatives are paid a salary plus commission on sales; however, they are responsible for certain expenses. They perform essentially all of the functions of a dealer, including making weekly sales and service calls, collecting customer accounts receivable, and participating in product and business training programs.

#### FOREIGN DISTRIBUTORS

Sales to the Corporation's foreign distributors are made by its subsidiary, Snap-on Tools International, Ltd., in those countries where the Corporation does not have subsidiary operations. These foreign distributors operate under license or contract with the Corporation. Their customers may include industrial and governmental entities as well as individual technicians and shop owners. These sales were not material to the Corporation's total sales in 1994.

#### SNAP-ON DIAGNOSTICS

Marketing of higher-value diagnostics and shop equipment in the United States is conducted primarily through the SNAP-ON/SUN Tech Systems group. In addition, SUN brand equipment is marketed in Europe through both a direct sales force and distributors and, in Canada, through distributors.

#### TECHNICAL SPECIALISTS

Technical Specialists, or Tech Reps, are employees of the Corporation trained in the operation and sales of certain sophisticated diagnostic and shop equipment. They are compensated primarily on the basis of commission. Tech Reps help dealers demonstrate and sell technically complex equipment and train dealers' customers in how to use it. Dealers receive a smaller discount than their normal discount on the Corporation's suggested retail prices on items Tech Reps help them sell.

Tech Reps demonstrate and assist in the sale of SNAP-ON equipment and sell SUN equipment. They call on accounts on their own and also work with Snap-on dealers and sales representatives to identify sales leads and to respond to customer needs.

#### SNAP-ON INDUSTRIAL

Marketing to industrial and governmental customers is by direct sales through industrial sales representatives and indirect sales through industrial distributors.

#### INDUSTRIAL SALES REPRESENTATIVES

The sale of SNAP-ON products is conducted through industrial sales representatives who are employees of the Corporation and compensated primarily on a commission basis. These sales representatives focus on the Corporation's traditional industrial customers; generally those who prefer to buy on quality, selection and service, as well as certain OEM accounts.

6

At year-end 1994, the Corporation had industrial sales representatives in Australia, Belgium, Germany, Japan, Mexico, Puerto Rico, the Netherlands, the United Kingdom and the United States. U.S. industrial sales accounted for the majority of the Corporation's total industrial sales.

#### J. H. WILLIAMS AND SIOUX TOOLS SALES REPRESENTATIVES

Williams and Sioux are operated as separate companies with separate sales forces and distinct brands and product lines. Williams' and Sioux's sales representatives focus on sales to industrial distributors as well as appropriate OEM accounts.

#### FRANCHISE PROGRAM

Since 1991, all new U.S. dealers, and a majority of existing U.S. dealers, have been enrolled as franchisees of the Corporation. It is the Corporation's belief that a franchise program facilitates and promotes a more uniform marketing and business program and allows the Corporation to take additional steps to support the success of its dealers. At year-end 1994, approximately 81% of all U.S. dealers were enrolled as franchisees.

As part of the franchise program, certain programs and benefits are made available to franchised dealers. The current package of franchise benefits



includes a volume purchase discount, a stock purchase program, certain types of insurance coverage, access to a family assistance counseling program, discounts on cellular telephone service and the ability to purchase a second franchise. Additional programs and benefits enable franchised dealers to obtain start-up financing (discussed later), operate a second van to service their customers, transfer their franchises, and establish retirement savings programs. A National Dealer Advisory Council elected by dealers assists the Corporation in identifying and implementing enhancements to the franchise program.

The Corporation currently charges initial and ongoing monthly license fees which did not add material revenue to the Corporation's operations.

To qualify for a franchise, a new dealer applicant must meet minimum personal and financial qualifications. The dealer must make an initial investment in the business for such items as inventory, travel and living expenses while training, van acquisition, development of customer accounts receivable, equipment, fixtures, computer equipment, additional funds for the initial phase of operations, and other miscellaneous expenses.

In the United States and most foreign locations, dealers lease or purchase their vans from a third-party vendor not affiliated with the Corporation.

#### FIELD MANAGEMENT/SALES SUPPORT

The Corporation supports and services its dealer, sales representative and industrial sales network with an extensive field organization of branch offices and service, repair and distribution centers, which are discussed in more detail later. Dealers are organized by field groups of seven to ten dealers within branch operations. Each field group is headed by an employee field manager, who provides product, sales and business training on a continuous basis.

The Corporation provides its dealers with instruction, training and practical experience regarding its products, sales techniques, record keeping and reporting, inventory control methods, and general business practices. Training initially is conducted in branch offices and, on an ongoing basis, through field managers working with dealers as they service their list of calls.

The Corporation also engages in various marketing and sales promotion programs designed to increase sales to both dealers and their customers. These programs include advertising, sales materials, premiums and the offering of promotional tools.

#### FINANCIAL ASSISTANCE AND CREDIT

The Corporation's customer and dealer credit programs are conducted by Snap-on Financial Services, Inc. and its subsidiary, Snap-on Credit Corporation.

Financial assistance for dealer operations and dealer sales is offered by the Corporation as part of its program of dealer support. This assistance includes, but is not limited to, the financing of inventory; financing a new dealer's purchase of accounts receivable from a predecessor dealer in a sales route; and the purchase of various extended credit contracts between dealers and their customers.

The Dealer Finance Program offered by Snap-on Credit Corporation provides funds for the initial investment of start-up and converted franchise dealers which could include the license fee, inventory, revolving account acquisition, equipment, fixtures, other expenses and an initial checking account deposit. Dealers are required to make a minimum down payment. Participating dealers must enter into a Loan Security Agreement and execute a Promissory Note evidencing the loan.

The Credit Corporation operates credit programs, which provide financing for high-value product purchases by dealers' customers, through the purchase of

paper from dealers.

#### FIELD SERVICES AND INVENTORY

In the U.S., the Corporation operates four regional finished-goods distribution centers, a replacement processing center, eight regional customer service centers, and four regional repair centers. In addition, the Corporation operates 49 U.S. branch sales offices.

Regional customer service centers, whose offices include regional offices of the Credit Corporation, process all dealer orders and inquiries, including billing and accounting, manage dealer credit, and provide credit collection assistance. Service and repair of SNAP-ON products is provided at regional repair centers, while service for SUN product is provided through a network of more than 200 contract service technicians.

#### RAW MATERIAL & PURCHASED PRODUCT

The Corporation's supply of raw materials (various grades of steel bars and sheets) and purchased components are readily available from numerous suppliers.

The majority of 1994 consolidated net sales consisted of products manufactured by the Corporation. The remainder was purchased from outside suppliers. No single supplier's products accounted for a material portion of 1994 consolidated net sales.

#### PATENTS AND TRADEMARKS

The Corporation vigorously pursues and relies on patent protection to protect its inventions and its position in the market. As of December 31, 1994, the Corporation and its subsidiaries held approximately 354 patents and more than 211 pending patent applications.

Patent protection covers certain products which are believed to have significant market potential. Examples of these products include Engine Analyzers, Serrated Jaw Open End Wrenches, Wheel Balancers, Sealed Ratchets, Electronic Torque Wrenches, Ratcheting Screwdrivers, Emissions Sensing Devices and Air Conditioning Equipment.

Much of the technology used in the manufacturing of automotive tools and equipment is in the public domain. The Corporation relies primarily on trade secret protection to protect proprietary processes used in manufacturing. Methods and processes are patented when appropriate.

Corporation trademarks are of continuing importance to the Corporation in the marketplace. Trademarks have been registered in the U.S. and in 61 other countries, and additional applications for trademark registrations are pending. Proper use of the Corporation's trademarks is rigorously policed.

The Corporation's right to manufacture and sell certain products is dependent upon licenses from others. These products do not represent a material portion of the Corporation's sales.

#### WORKING CAPITAL

Since the Corporation's business is not seasonal, and since its inventory needs are relatively constant, no unusual working capital needs arise during the year.

The Corporation's use of working capital to extend credit to its dealers and to purchase installment credit receivables from dealers is discussed in "Management's Discussion and Analysis of Results of Operations and Financial Condition," which is found on pages 18 to 22 of the Corporation's 1994 Annual Report and is incorporated herein by reference.

The Corporation does not depend on any single customer, small group of customers or government for any material part of its sales and has no significant backlog of orders.

## ENVIRONMENT

The Corporation complies with applicable environmental control requirements in its operations. Compliance has not had a material effect upon the Corporation's capital expenditures, earnings or competitive position.

## EMPLOYEES

At the end of 1994, the Corporation employed approximately 9,000 people, of whom approximately 17% were covered by collective bargaining agreements. Approximately one-third of all employees are engaged in manufacturing activities.

## RECENT DEVELOPMENTS

In September 1994, the Corporation filed a registration statement with the Securities and Exchange Commission which allows the Corporation to offer for sale from time to time up to \$300 million of unsecured indebtedness. As of December 31, 1994, the Corporation has not incurred indebtedness under this filing.

8

In January 1995, the Board of Directors approved a common stock repurchase program of up to \$100 million to be executed from time to time through open market purchases and by block purchases.

## ITEM 2: DESCRIPTION OF PROPERTIES

The Corporation maintains both leased and owned manufacturing, warehouse, distribution and office facilities throughout the world.

The Corporation's principal manufacturing locations and distribution centers are located in Escondido and San Jose, California; Columbus, Georgia; Crystal Lake, Mt. Carmel and Ottawa, Illinois; Algona and Sioux City, Iowa; Natick, Massachusetts; Olive Branch, Mississippi; Carson City, Nevada; Robesonia, Pennsylvania; Johnson City and Elizabethton, Tennessee; East Troy, Kenosha and Milwaukee, Wisconsin; Sydney, Australia; Barbara D'oeste, Brazil; Calgary, Mississauga and Newmarket, Canada; King's Lynn, England; Shannon, Ireland; Tokyo, Japan; and Amsterdam, the Netherlands.

The Corporation believes that its facilities are well maintained and have a capacity adequate to meet the Corporation's present and foreseeable future demand. The Corporation's U.S. facilities occupy approximately 3.8 million square feet, of which approximately 3.4 million square feet are owned. The Corporation's facilities outside the U.S. contain approximately 1.1 million square feet, of which approximately .5 million square feet are owned.

In the fourth quarter of 1993, the Corporation completed a reorganization and consolidation of its field services and inventory. As part of the reorganization, the Corporation has sold 32 U.S. branch offices and 2 division offices as of December 1994. The branches that were sold have been replaced with smaller leased facilities.

## ITEM 3: LEGAL PROCEEDINGS

Note 4 to the Financial Statements of the Corporation on page 29 of its 1994 Annual Report is incorporated herein by reference. None of this litigation is material within the meaning of Section 103 of Regulation S-K in that such matters individually or in the aggregate do not exceed 10% of current assets.

## ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There was no matter submitted to a vote of the shareholders during the fourth quarter of the fiscal year ending December 31, 1994.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Corporation are listed below. All but two of the said officers have been with the Corporation for more than five years. There is no family relationship among the executive officers and there has been no involvement in legal proceedings during the past five years that would be material to the evaluation of the ability or integrity of any of the executive officers. Executive officers may be elected by the Board of Directors or appointed by the Chief Executive Officer at the regular meeting of the Board which follows the Annual Shareholders' Meeting, held on the fourth Friday of April each year, and at such other times as new positions are created.

NAME, POSITION AND BUSINESS EXPERIENCE AGE  
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ROBERT A. CORNOG (54)  
Chairman, President and CEO since July 1991. A Director since 1982. Prior to joining Snap-on, he was President of Macwhyte Company from 1981 to 1991.

DONALD S. HUML (48)  
Senior Vice President - Finance and Chief Financial Officer since August 1994. Prior to joining Snap-on, he was Vice President and Chief Financial Officer of Saint-Gobain Corporation from December 1990 to August 1994. Vice President and Chief Financial Officer of CertainTeed Corporation from August 1989 to December 1990.

MICHAEL F. MONTEMURRO (46)  
Senior Vice President - Financial Services and Administration since August 1994. Senior Vice President - Financial Services, Administration and Chief Financial Officer from April 1994 to August 1994. Senior Vice President - Finance and Chief Financial Officer from March 1990 to April 1994. Vice President - Marketing Services from May 1989 to March 1990.

JAY H. SCHNABEL (51)  
Senior Vice President - Diagnostics since April 1994 and President of Sun Electric Corporation since December 1992. Senior Vice President - Administration from April 1990 to April 1994. Senior Vice President - Manufacturing and Research & Engineering from November 1988 to April 1990. A Director since August 1989.

DR. JAMES L. SOMERS (51)  
Senior Vice President - Manufacturing and Technology since January 1992. Senior Vice President - Manufacturing and Research & Engineering from April 1990 to January 1992. Vice President - Corporate Manufacturing from January 1987 to April 1990.

NAME, POSITION AND BUSINESS EXPERIENCE AGE  
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BRANKO M. BERONJA (60)  
President - North American Operations since April 1994, and Vice President - Sales, North America since August 1989.

GREGORY D. JOHNSON (45)  
Controller since April 1992. Financial Controller - Asia/Pacific from April 1991 to April 1992. Director - Budgets, Corporate Cost and International Accounting from April 1984 to April 1991.

SUSAN F. MARRINAN (46)  
Vice President, Secretary and General Counsel since January 1992. Secretary and General Counsel from November 1990 to January 1992. Prior to joining Snap-on, she was Vice President, General Counsel and Corporate Secretary for H. B. Fuller Company from 1987 to October 1990.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

At December 31, 1994, the Corporation had 43,128,696 shares of common stock outstanding. Institutional shareholders had voting authority for approximately 69% of these shares.

Additional information required by Item 5 is contained on page 40 of the Corporation's 1994 Annual Report and is incorporated herein by reference to said Annual Report.

ITEM 6: SELECTED FINANCIAL DATA

The information required by Item 6 is contained on pages 38 and 39 of the Corporation's 1994 Annual Report and is incorporated herein by reference to said Annual Report.

ITEM 7: MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The information required by Item 7 is contained on pages 18-22 of the Corporation's 1994 Annual Report and is incorporated herein by reference to said Annual Report.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Item 8 is contained on pages 23-36 of the Corporation's 1994 Annual Report and is incorporated herein by reference to said Annual Report.

ITEM 9: DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The identification of the Corporation's directors as required by Item 10 is contained in the Corporation's Proxy Statement, dated March 24, 1995, and is incorporated herein by reference to said Proxy Statement. In respect to information as to the Corporation's executive officers, see caption "Executive Officers of the Registrant" at the end of Part I of this report.

The disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is contained in the Corporation's Proxy Statement, dated March 24, 1995, and is incorporated herein by reference to said Proxy Statement on page 13.

ITEM 11: EXECUTIVE COMPENSATION

The information required by Item 11 is contained in the Corporation's Proxy Statement, dated March 24, 1995, and is incorporated herein by reference to said Proxy Statement on pages 5-10.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is contained in the Corporation's Proxy Statement, dated March 24, 1995, and is incorporated herein by reference to said Proxy Statement on page 5.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

## PART IV

## ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

## ITEM 14(A): DOCUMENT LIST

## 1. LIST OF FINANCIAL STATEMENTS

The following consolidated financial statements of Snap-on Incorporated, and the Auditors' Report thereon, each included in the 1994 Annual Report of the Corporation to its shareholders for the year ended December 31, 1994, are incorporated by reference in Item 8:

Consolidated Balance Sheets as of December 31, 1994 and January 1, 1994.

Consolidated Statements of Earnings for the years ended December 31, 1994, January 1, 1994 and January 2, 1993.

Consolidated Statements of Shareholders' Equity for the years ended December 31, 1994, January 1, 1994 and January 2, 1993.

Consolidated Statements of Cash Flows for the years ended December 31, 1994, January 1, 1994 and January 2, 1993.

Notes to Consolidated Financial Statements.

## 2. FINANCIAL STATEMENT SCHEDULE

The following consolidated financial statement schedule of Snap-on Incorporated is included in Item 14(d) as a separate section of this report.

SCHEDULE II Valuation and Qualifying Accounts pg. 16

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are inapplicable and, therefore, have been omitted, or are included in the Corporation's 1994 Annual Report in the Notes to Consolidated Financial Statements for the years ended December 31, 1994, January 1, 1994 and January 2, 1993, which are incorporated by reference in Item 8.

## 3. LIST OF EXHIBITS

THE FOLLOWING EXHIBITS ARE FILED AS A SEPARATE SECTION OF THIS REPORT.

(3) (a) Restated Certificate of Incorporation, effective March 10, 1995.

(b) Bylaws of the Corporation, effective June 24, 1994.

(4) Rights Agreement dated as of October 23, 1987, between the Corporation and Harris Trust and Savings Bank, as Rights Agent, filed as Exhibit 1 to the Corporation's Registration Statement on Form 8-A dated October 26, 1987, is incorporated herein by reference thereto. A Form 8-K, dated June 4, 1992, was filed reporting an amendment to this Rights Agreement and is incorporated herein by reference. No financial statements were filed. On January 28, 1994, the Board of Directors adopted amendments to the Rights Agreement. A Form 8-K dated January 28, 1994 reporting these amendments was filed and is incorporated herein by reference. No financial statements were filed. The Corporation and its subsidiaries have no long-term debt agreement for which the related outstanding debt exceeds 10% of consolidated total assets as of December 31, 1994. Copies of debt instruments for which the related debt is less than 10% of consolidated total assets will be furnished to the Commission upon request.

(10) Material Contracts

- (a) Incentive Stock Option Plan, filed as Exhibit 10(a) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 29, 1990, is incorporated herein by reference thereto.
- (b) Executive and Senior Officer Agreements, amended and restated, filed as Exhibit 10(b) to the Corporation's Annual Report on Form 10-K for the fiscal year ended January 1, 1994, is incorporated herein by reference thereto.
- (c) Indemnification Agreement for Directors, contained in the Proxy Statement dated March 23, 1990, is incorporated herein by reference thereto.
- (d) Directors' 1993 Fee Plan, contained in the Corporation's Proxy Statement dated March 19, 1993, is incorporated by reference thereto.
- (e) Snap-on Tools Corporation Supplemental Retirement Plan, filed as Exhibit 10(d) to the Corporation's Annual Report on Form 10-K for the fiscal year ended January 1, 1994, is incorporated herein by reference thereto.

(13) Annual Report to Shareholders

(22) Subsidiaries of the Corporation

ITEM 14(B): REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the last quarter of the period covered by this report.

11

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS  
ON FINANCIAL STATEMENT SCHEDULE

We have audited, in accordance with generally accepted auditing standards, the financial statements included in Snap-on Incorporated's (the "Corporation") Annual Report to Shareholders, incorporated by reference in this Form 10-K, and have issued our report thereon dated January 31, 1995. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed on page 16 is the responsibility of the Corporation's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin  
January 31, 1995

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included (or incorporated by reference) in this Form 10-K, into the

Corporation's previously filed Registration Statement File Nos. 2-53663, 2-53578, 33-7471, 33-22417, 33-37924, 33-39660, 33-57898 and 33-55607.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin  
March 20, 1995

12

SIGNATURES

Pursuant to the requirements of Section 13 of 15(d) of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SNAP-ON INCORPORATED  
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By: /s/ R. A. Cornog Date: March 21, 1995  
-----  
R. A. Cornog, Chairman of the Board of Directors,  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Corporation and in the capacities as indicated.

/s/ R. A. Cornog Date: March 21, 1995  
-----  
R. A. Cornog, Chairman of the Board of Directors,  
President and Chief Executive Officer

/s/ D. S. Huml Date: March 21, 1995  
-----  
D. S. Huml, Principal Financial Officer,  
and Senior Vice President - Finance

/s/ G. D. Johnson Date: March 21, 1995  
-----  
G. D. Johnson, Principal Accounting Officer,  
and Controller

13

SIGNATURES

Pursuant to the requirements of Section 13 of 15(d) of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its



behalf by the undersigned, thereunto duly authorized.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Corporation and in the capacities as indicated.

By: /s/ D. W. Brinckman Date: March 21, 1995  
-----  
D. W. Brinckman, Director

By: /s/ B. S. Chelberg Date: March 21, 1995  
-----  
B. S. Chelberg, Director

By: /s/ R. J. Decyk Date: March 21, 1995  
-----  
R. J. Decyk, Director

By: /s/ R. F. Farley Date: March 17, 1995  
-----  
R. F. Farley, Director

By: /s/ A. L. Kelly Date: March 21, 1995  
-----  
A. L. Kelly, Director

By: /s/ G. W. Mead Date: March 21, 1995  
-----  
G. W. Mead, Director

By: /s/ E. H. Rensi Date: March 21, 1995  
-----  
E. H. Rensi, Director

By: /s/ J. H. Schnabel Date: March 21, 1995  
-----  
J. H. Schnabel, Director

EXHIBIT INDEX

Item 14(c): Exhibits	Page
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(3) (a) Restated Certificate of Incorporation of the Corporation, effective as of March 10, 1995. . . . .	17
(b) Bylaws of the Corporation, effective as of June 24, 1994. . . . .	31
(4) Rights Agreement dated as of October 23, 1987 between the	

Corporation and Harris Trust and Savings Bank, as Rights Agent, filed as Exhibit 1 to the Corporation's Registration Statement on Form 8-A dated October 26, 1987, is incorporated herein by reference thereto. A Form 8-K, dated June 4, 1992, was filed reporting an amendment to this Rights Agreement and is incorporated herein by reference. No financial statements were filed. On January 28, 1994, the Board of Directors adopted amendments to the Rights Agreement. A Form 8-K dated January 28, 1994 reporting these amendments was filed and is incorporated herein by reference. No financial statements were filed. The Corporation and its subsidiaries have no long-term debt agreement for which the related outstanding debt exceeds 10% of consolidated total assets as of January 1, 1994. Copies of debt instruments for which the related debt is less than 10% of consolidated total assets will be furnished to the Commission upon request.

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- (a) Incentive Stock Option Plan, filed as Exhibit 10(a) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 29, 1990, is incorporated herein by reference thereto.
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- (c) Indemnification Agreement for Directors, contained in the Proxy Statement dated March 23, 1990, is incorporated herein by reference thereto
- (d) Directors' 1993 Fee Plan, contained in the Corporation's Proxy Statement dated March 19, 1993, is incorporated by reference thereto.
- (e) Snap-on Tools Corporation Supplemental Retirement Plan, filed as Exhibit 10(d) to the Corporation's Annual Report on Form 10-K for the fiscal year ended January 1, 1994, is incorporated herein by reference thereto.

(13) Annual Report to Shareholders. . . . . 55  
 (22) Subsidiaries of the Corporation. . . . . 55

Snap-on Incorporated

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Description	Balance at beginning of year	Balance of Subsidiary at time of acquisition	Charged to costs and expenses	Deductions	Balance at end of year
Allowance for doubtful accounts					
Year ended December 31, 1994	\$14,946,208	\$ 96,355	\$ 8,652,343	\$10,514,044 (1)	\$13,580,593 (1)
Year ended January 1, 1994	\$12,586,976	\$1,443,272	\$14,443,272	\$13,580,593 (1)	\$14,946,208
Year ended January 2, 1993	\$ 5,825,307	\$4,547,379	\$11,575,491	\$ 9,361,201 (1)	\$12,586,976

<FN>  
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(1) This amount represents write-offs of bad debts.



EXHIBIT (3) (A)

RESTATED  
CERTIFICATE OF INCORPORATION  
OF SNAP-ON INCORPORATED

SNAP-ON INCORPORATED, a corporation organized and existing under the laws of the State of Delaware, does hereby certify as follows:

1. The name of the corporation is "SNAP-ON INCORPORATED" (hereinafter referred to as the "Corporation"), and the name under which the Corporation was originally incorporated is "Snap-on Tools, Inc." The date of filing its original Certificate of Incorporation with the Secretary of State was April 7, 1930.

2. This Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation in accordance with Section 245 of the General Corporation Law of the State of Delaware.

3. This Restated Certificate of Incorporation restates and integrates the provisions of the Restated Certificate of Incorporation of the Corporation as heretofore amended or supplemented and there is no discrepancy between those provisions and the provisions of this Restated Certificate of Incorporation.

4. The text of the Restated Certificate of Incorporation as heretofore amended or supplemented is hereby further restated to read as herein set forth in full:

FIRST: The name of the Corporation is Snap-on Incorporated.

SECOND: The location of its principal office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, State of Delaware. The name of its resident agent therein, and in charge of said office, is The Corporation Trust Company whose address is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware.

THIRD: The nature of the business or objects or purposes to be transacted, promoted or carried on by the Corporation are to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is one hundred twenty-five million (125,000,000) shares of Common Stock with the par value of one dollar (\$1.00) per share and fifteen million (15,000,000) shares of Preferred Stock with the par value of one dollar (\$1.00) per share.

The following is a description of each of the classes of stock of the Corporation and a statement of the powers, preferences and rights of such stock, and the qualifications and restrictions thereof:

17

(a) At all meetings of the shareholders of the Corporation the holders of the Common Stock shall be entitled to one vote for each share of Common Stock held by them respectively.

(b) Shares of the Preferred Stock may be issued from time to time in one or more series as may from time to time be determined by the Board of Directors of the Corporation. Each series shall be distinctly designated.

Except as otherwise provided in the resolution setting forth the designations and rights of the series of Preferred Stock, all shares of any one series of the Preferred Stock shall be alike in every particular, except that there may be different dates from which dividends (if any) thereon shall be cumulative, if made cumulative.

The relative preferences, participating, optional and other special rights of each such series, and limitations thereof, if any, may differ from those of any and all other series at any time outstanding. The Board of Directors of the Corporation is hereby expressly granted authority to fix by resolution or resolutions adopted prior to the issuance of any shares of each particular series of the Preferred Stock, the designation, relative preferences, participating, optional and other special rights and limitations thereof, if any, of such series, including, but without limiting the generality of the foregoing, the following:

(1) the distinctive designation of, and the number of shares of the Preferred Stock which shall constitute the series, which number may be increased (except as otherwise fixed by the Board of Directors) or decreased (but not below the number of shares thereof then outstanding) from time to time by action of the Board of Directors;

(2) the rate and times at which, and the terms and conditions upon which, dividends, if any, on shares of the series may be paid, the extent of preferences or relation, if any, of such dividends to the dividends payable on any other class or classes of stock of the Corporation, or on any series of the Preferred Stock or of any other class or classes of stock of the Corporation, and whether such dividends shall be cumulative, partially cumulative or non-cumulative;

(3) the right, if any, of the holders of shares of the series to convert the same into, or exchange the same for, shares of any other class or classes of stock of the Corporation, and the terms and conditions of such conversion or exchange;

(4) whether shares of the series shall be subject to redemption and the redemption price or prices and the time or times at which, and the terms and conditions upon which, shares of the series may be redeemed;

18

(5) the rights, if any, of the holders of shares of the series upon voluntary or involuntary liquidation, merger, consolidation, distribution or sale of assets, dissolution or winding-up of the Corporation;

(6) the terms of the sinking fund or redemption or purchase account, if any, to be provided for shares of the series; and

(7) the voting powers, if any, of the holders of shares of the series which may, without limiting the generality of the foregoing, include the right, voting as a series by itself or together with other series of the Preferred Stock or all series of the Preferred Stock as a class, (1) to vote more or less than one vote per share on any or all matters voted upon by the shareholders, (2) to elect one or more directors of the Corporation in the event there shall have been a default in the payment of dividends on any one or more series of the Preferred Stock or under such other circumstances and upon such conditions as the Board of Directors may fix.

(c) The relative preferences, rights and limitations of each series of Preferred Stock in relation to the preferences, rights and limitations of each other series of Preferred Stock shall, in each case, be as fixed from time to time by the Board of Directors in the resolution or resolutions adopted pursuant to authority granted in this Article FOURTH, and the consent by class

or series vote or otherwise, of the holders of the Preferred Stock of such of the series of the Preferred Stock as are from time to time outstanding shall not be required for the issuance by the Board of Directors of any other series of Preferred Stock whether the preferences and rights of such other series shall be fixed by the Board of Directors as senior to, or on a parity with, the preferences and rights of such outstanding series, or any of them; provided, however, that the Board of Directors may provide in such resolution or resolutions adopted with respect to any series of Preferred Stock that the consent of the holders of a majority (or such greater proportion as shall be therein fixed) of the outstanding shares of such series voting thereon shall be required for the issuance of any or all other series of Preferred Stock.

(d) Subject to the provisions of the preceding paragraph (c), shares of any series of Preferred Stock may be issued from time to time as the Board of Directors shall determine and on such terms and for such consideration, not less than the par value thereof, as shall be fixed by the Board of Directors.

RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of Article FOURTH of its Certificate of Incorporation, a series of Preferred Stock, par value \$1.00 per share, of the Corporation be and it hereby is created, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

19

Section 1. DESIGNATION AND AMOUNT. The shares of such series shall be designated as "Series A Junior Preferred Stock" (the "Series Preferred Stock") and the number of shares constituting such series shall be 450,000.

Section 2. DIVIDENDS AND DISTRIBUTIONS.

(A) The holders of shares of Series Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the fifteenth day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$20.00, or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each of those cases the multiplier set forth in clause (b) of the preceding sentence shall be adjusted by multiplying such multiplier by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

The Corporation shall declare a dividend or distribution on the Series Preferred Stock as provided in this paragraph (A) immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution

shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$20.00 per share on the Series Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

Dividends shall begin to accrue and be cumulative on outstanding shares of Series Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination

20

of holders of shares of Series Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

Section 3. VOTING RIGHTS. The holders of shares of Series Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock; or effect a subdivision or combination of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) (i) If at any time dividends on any Series Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, the holders of Preferred Stock, voting as a class, irrespective of series, shall have the right to elect two Directors, which Directors shall be in addition to the then otherwise authorized number of Directors.

(ii) During any default period, such voting right of the holders of Series Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or

at any annual meeting of

21

stockholders, provided that such voting right shall not be exercised unless the holders of 25% in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Preferred Stock of such voting right. After the holders of the Preferred Stock shall have exercised their right to elect Directors in any default period and during the continuance of such period, the number of Directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than 10% of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Preferred Stock, which meeting shall thereupon be called by the Chairman of the Board, the President, a Vice-President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this paragraph (C)(iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than 10% of the total number of shares of Preferred Stock outstanding. Notwithstanding the provisions of this paragraph (C)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the stockholders.

(iv) In any default period the holders of Common Stock, and other classes of stock of the Corporation, if applicable, shall continue to be entitled to elect the whole number of Directors then otherwise authorized.

(v) The Directors elected by the holders of Preferred Stock shall continue in office until the next annual meeting of stockholders and until their successors shall have been elected by such holders or until the expiration of the default period. Any vacancy in the Board of Directors may be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class of stock which elected the Director whose office shall have become vacant. References in this paragraph (C) to Directors elected by the holders of a particular class of stock shall include Directors elected by such Directors to fill vacancies as provided in the foregoing sentence.

22

(vi) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the number of Directors shall be such number as may then be authorized by the Board of Directors.



(D) Except as set forth herein, holders of Series Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. CERTAIN RESTRICTIONS.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series Preferred Stock, except dividends paid ratably on the Series Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series Preferred Stock, or any shares of stock ranking on a parity with the Series Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the

23

respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. REACQUIRED SHARES. Any shares of Series Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. LIQUIDATION, DISSOLUTION OR WINDING UP. Upon any voluntary liquidation, dissolution or winding up of the Corporation, no

distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series Preferred Stock unless, prior thereto, the holders of shares of Series Preferred Stock shall have received \$125.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock, or (2) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series Preferred Stock, except distributions made ratably on the Series Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. CONSOLIDATION, MERGER, ETC. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment

24

hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. NO REDEMPTION. The shares of Series Preferred Stock shall not be redeemable.

Section 9. AMENDMENT. The Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series Preferred Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series Preferred Stock, voting together as a single class.

FIFTH: The Corporation is to have perpetual existence.

SIXTH: The private property of the stockholders of the Corporation shall not be subject to the payment of corporate debts to any extent whatever.

SEVENTH: The number of directors which shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the By-laws; provided that in no event shall the total number of directors be less than five or more than fifteen. The Board of Directors shall be divided into three classes as nearly equal in number as may be, with the term of office of one class expiring each year, and at the annual meeting of stockholders in 1970 directors of the first class shall be elected to hold office for a term expiring at the next succeeding annual meeting; directors of the second class shall be elected to hold office for a term expiring at the second succeeding annual meeting; and directors of the third class shall be elected to hold office for a term expiring at the third succeeding annual meeting. When the number of directors is changed, any newly created directorships or any decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as possible. When the number of directors is increased by the Board of Directors and any newly created directorships are filled by the Board of Directors, there shall be no classification of the additional directors until the next annual meeting of stockholders.

25

Subject to the foregoing, at each annual meeting of stockholders the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting.

EIGHTH: The following additional provisions are inserted for the regulation of the business and for the conduct of the affairs of the Corporation and its directors and stockholders:

(a) Subject to the provisions of Article SEVENTH, the Board of Directors shall have power to make, alter, amend or repeal the By-laws of the Corporation without the assent or vote of the stockholders.

(b) The Board of Directors, in addition to the powers and authority expressly conferred upon it hereinbefore and by statute and by the By-laws, is hereby empowered to exercise all such powers as may be exercised by the Corporation, subject nevertheless to the provisions of the Statutes of the State of Delaware, of this Certificate of Incorporation, and to any regulations that may from time to time be made by the stockholders, provided that no regulations so made shall invalidate any provisions of this Certificate of Incorporation or any power or act of the Board of Directors which would have continued valid if such regulation had not been made.

NINTH: (a) Except as set forth in part (b) of this Article NINTH, the affirmative vote or consent of the holders of shares of all classes of stock of the Corporation possessing four-fifths of the voting rights in elections of directors, considered for the purposes of this Article NINTH as one class, shall be required (i) for the adoption of any agreement for the merger or consolidation of the Corporation with or into any Other Corporation (as hereinafter defined), or (ii) to authorize any sale, lease, exchange, mortgage, pledge or other disposition of all, or substantially all, or any Substantial Part (as hereinafter defined) of the assets of the Corporation or any Subsidiary (as hereinafter defined) to any Other Corporation, or (iii) to authorize the issuance or transfer by the Corporation of any Substantial Amount (as hereinafter defined) of securities of the Corporation in exchange for the securities or assets of any Other Corporation. Such affirmative vote or consent shall be in addition to the vote or consent of the holders of the stock of the Corporation otherwise required by law, this Certificate of Incorporation or any agreement or contract to which the Corporation is a party.

(b) The provisions of part (a) of this Article NINTH shall not be applicable to any transaction described therein if such transaction is approved by resolution of the Board of Directors of the Corporation, provided that a majority of the members of the Board of Directors voting for the approval of such transaction were duly elected and acting members of the Board of Directors

prior to the time any such Other Corporation may have become a Beneficial Owner (as hereinafter defined) of shares of stock of the Corporation possessing more than 10% of the voting rights in elections of directors.

26

(c) For purposes of part (b) of this Article NINTH, the Board of Directors shall have the power and duty to determine for the purposes of this Article NINTH, on the basis of information known to such Board, if and when any Other Corporation is the Beneficial Owner of more than 10% of the outstanding shares of stock of the Corporation entitled to vote in elections of directors. Any such determination shall be conclusive and binding for all purposes of this Article NINTH.

(d) As used in this Article NINTH, the following terms shall have the meanings as set forth below:

"Other Corporation" means any person, firm, corporation or other entity, other than a Subsidiary of the Corporation.

"Substantial Part" means any assets having a then fair market value, in the aggregate, of more than \$5,000,000.

"Subsidiary" means any corporation in which the Corporation owns, directly or indirectly, more than 50% of the voting securities.

"Substantial Amount" means any securities of the Corporation having a then fair market value of more than \$5,000,000.

"Beneficial Owner" of stock means a person, or an "affiliate" or "associate" of such person (as such terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect on March 1, 1970), who directly or indirectly controls the voting of such stock, or who has any option, warrants, conversion or other rights to acquire such stock.

TENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation; provided that no amendment to this Certificate of Incorporation shall amend, alter, change or repeal any of the provisions of Article SEVENTH or Article NINTH or this Article TENTH, unless the amendment effecting such amendment, alteration, change or repeal shall receive the affirmative vote or consent of the holders of shares of all classes of stock of this Corporation possessing four-fifths of the voting rights in elections of directors, considered for this purpose as one class.

ELEVENTH: (a) The provisions of this Article ELEVENTH shall apply independently of any other provision of this Restated Certificate of Incorporation if any Other Corporation (as hereinafter defined) seeks to accomplish a Business Combination (as hereinafter defined) following the date the Acquiring Entity (as hereinafter defined) becomes an Acquiring Entity.

27

(b) (1) As used in Article ELEVENTH, the following terms shall have the meanings set forth below:

"Acquiring Entity" means any Other Corporation which is the Beneficial Owner of more than 10% of the outstanding shares of stock of the Corporation entitled to vote in elections of directors.

"Beneficial Owner" of stock means a person or an

"affiliate" or "associate" of such person (as such terms are defined in Rule 12b-2 of the General Rules and Regulations ["Regulations"] under the Securities Exchange Act of 1934 as in effect on January 1, 1984) who is a "beneficial owner" of stock, as that term is defined under Rule 13d-3 of the Regulations as in effect on January 1, 1984, together with successors or assigns of that person.

"Business Combination" means any merger or consolidation of the Corporation with or into any Acquiring Entity (or any affiliate of any Acquiring Entity), any sale, lease, exchange, mortgage, pledge or other disposition of all, or any Substantial Part (that is, assets having a then fair market value in the aggregate of more than \$5,000,000) of the assets of the Corporation or any subsidiary of the Corporation, to any Acquiring Entity (or any affiliate of any Acquiring Entity), or any issuance or transfer by the Corporation of any Substantial Amount (that is, any securities of the Corporation having a then fair market value of more than \$5,000,000) of securities of the Corporation in exchange for the securities or assets of any Acquiring Entity (or any affiliate of any Acquiring Entity).

"Continuing Director" means a director duly elected to the Board of Directors prior to the time the Acquiring Entity becomes an Acquiring Entity, or a person recommended to succeed a Continuing Director by a majority of the Continuing Directors.

"Other Corporation" means any person, firm, corporation or other entity, other than a subsidiary of the Corporation.

(2) For purposes of this Article ELEVENTH, the Board of Directors shall have the power and duty to determine, on the basis of information known to the Board, if and when any Other Corporation is or has become an Acquiring Entity. Any such determination shall be conclusive and binding for all purposes of this Article ELEVENTH.

28

(c) The affirmative vote or consent of holders of 67% of the shares of all classes of stock of the Corporation entitled to vote for directors, considered for the purpose of this Article ELEVENTH as one class, other than voting stock of which the Acquiring Entity is the Beneficial Owner, shall be required for approval of any Business Combination with any Acquiring Entity (or any affiliate of any Acquiring Entity), unless all of the following conditions are fulfilled:

(1) The cash or fair market value of other consideration to be received per share by common stockholders of the Corporation in the Business Combination will not, at the time the Business Combination is effected, be less than the greater of:

(A) the highest per share price, including brokerage commissions and/or soliciting dealers' fees (with appropriate adjustments for recapitalizations and for stock splits, stock dividends and like distributions), paid by the Acquiring Entity at any time in acquiring any of its holdings of the Corporation's Common Stock; or

(B) the highest per share price quoted in any market in which the Corporation's Common Stock is traded during the 12 months immediately prior to the public announcement of the Business Combination.

(d) In connection with a proposed Business Combination, the

Continuing Directors may retain special outside legal counsel, an investment banking firm, or such other experts as they, in their discretion, may deem necessary or appropriate to assist them in their evaluation of the Business Combination. In the event that an investment banking firm is retained by the Continuing Directors to give an opinion as to the value of the other consideration or as to the fairness (or lack of fairness) of the terms of any Business Combination from the point of view of the remaining public stockholders of the Corporation or otherwise, any proxy statement required to be mailed to the public stockholders of the Corporation shall contain in a prominent place at the front of the proxy statement any recommendation of the Continuing Directors as to the advisability (or inadvisability) of the Business Combination. If the Continuing Directors so determine, the opinion of the investment banking firm shall also be included in the proxy statement. All fees and expenses of outside legal counsel, any investment banking firm or other expert selected by the Continuing Directors shall be paid by the Corporation.

(e) In addition to any other provision of this Restated Certificate of Incorporation or By-laws, there shall be required to amend, alter, change or repeal, directly or indirectly, this Article ELEVENTH the affirmative vote or consent of 80% of the shares of all classes of stock of the Corporation entitled to vote for directors, considered for the purpose of this Article ELEVENTH as one class.

(f) Nothing contained in this Article ELEVENTH shall be construed to relieve any Acquiring Entity from any fiduciary obligation imposed by law. The conditions and voting requirements of this Article ELEVENTH shall be in addition to the conditions and voting requirements imposed by law or other provisions of this Restated Certificate of Incorporation, including, without limitation, the conditions and voting requirements imposed by Article NINTH.

TWELFTH: A director of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its shareholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware or (iv) for any transaction from which the director derived an improper personal benefit.

If the General Corporation Law of the State of Delaware is amended after approval of this Article by the shareholders to authorize the further elimination or limitation of the liability of directors, then the liability of directors shall be eliminated or limited to the full extent authorized by the General Corporation Law of the State of Delaware, as so amended.

Any repeal or modification of this Article shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

5. The capital of said Corporation will not be reduced under or by reason of any amendment in this Restated Certificate of Incorporation.

IN WITNESS WHEREOF, said Snap-on Incorporated has caused its corporate seal to be hereunto affixed and this certificate to be signed by its SR. VICE PRESIDENT and attested to by its Secretary, this 7TH day of MARCH , 1995.

SNAP-ON INCORPORATED

By: /s/ Michael F. Montemurro  
-----  
Michael F. Montemurro  
Sr. Vice President - Financial Services  
and Administration

ATTEST:

/s/ Susan F. Marrinan

-----  
Susan F. Marrinan, Vice President,  
Secretary and General Counsel

(CORPORATE SEAL)

EXHIBIT (3) (B)

SNAP-ON INCORPORATED  
BYLAWS  
AMENDED AND RESTATED

31

INDEX

ARTICLE I - OFFICES

1.1. Registered Office and Agent . . . . . 36  
1.2. Other Offices . . . . . 36

ARTICLE II - THE STOCKHOLDERS

2.1. Place of Meetings . . . . . 36  
2.2. Annual Meeting. . . . . 36  
2.3. Quorum. . . . . 36  
2.4. Voting. . . . . 37  
2.5. Proxies . . . . . 37  
2.6. List of Stockholders. . . . . 38  
2.7. Special Meetings. . . . . 38



2.8.	Notice of Meetings. . . . .	38
2.9.	Stockholder Nominations and Proposals . . . . .	38
2.10.	Voting Procedures and Inspectors of Elections. . . . .	39

ARTICLE III - THE BOARD OF DIRECTORS

3.1.	Powers, Number and Classification of Directors. . . . .	40
3.2.	Vacancies . . . . .	41
3.3.	Place of Meetings . . . . .	41
3.4.	Regular Meetings. . . . .	41
3.5.	Special Meetings. . . . .	41

3.6.	Quorum; Voting. . . . .	42
3.7.	Quorum During Emergency . . . . .	42
3.8.	Informal Action . . . . .	42
3.9.	Meeting by Telephone. . . . .	42
3.10.	Compensation. . . . .	42
3.11.	Committees. . . . .	43

ARTICLE IV - OFFICERS

4.1.	Election and Removal of Chairman of the Board of Directors. . . . .	43
4.2.	Duties of the Chairman of the Board of Directors. . . . .	43
4.3.	Officers. . . . .	44
4.4.	Removal . . . . .	44
4.5.	Designation of Chief Executive Officer and Chief Operating Officer. . . . .	44
4.6.	Chief Executive Officer . . . . .	44
4.7.	Chief Operating Officer . . . . .	45
4.8.	President . . . . .	45
4.9.	Executive Vice Presidents . . . . .	45
4.10.	Senior Vice Presidents. . . . .	45
4.11.	Chief Information Officer . . . . .	45
4.12.	Chief Financial Officer . . . . .	45
4.13.	Vice Presidents . . . . .	45
4.14.	Appointed Officers . . . . .	45
4.15.	Secretary . . . . .	45

4.16. Treasurer . . . . .	46
4.17. Controller. . . . .	46
4.18. Delegation of Duties. . . . .	47
4.19. Compensation. . . . .	47
4.20. Bonds . . . . .	47

ARTICLE V - CERTIFICATES OF STOCK AND THEIR TRANSFER

5.1. Regulation. . . . .	47
5.2. Form of Certificates. . . . .	47
5.3. Transfer of Certificates. . . . .	48
5.4. Record Date . . . . .	48
5.5. Lost or Destroyed Certificates. . . . .	49
5.6. Stock Transfer Books; Record Date . . . . .	49
5.7. Consent of Stockholders in Lieu of Meeting. . . . .	50

ARTICLE VI - BOOKS AND ACCOUNTS

6.1. Location. . . . .	50
6.2. Inspection. . . . .	50

ARTICLE VII - CHECKS, NOTES, CONTRACTS, ETC.

7.1. Checks; Notes . . . . .	50
7.2. Execution of Corporate Contracts. . . . .	51

ARTICLE VIII - MISCELLANEOUS

8.1. Fiscal Year . . . . .	51
8.2. Corporate Seal. . . . .	51

8.3. Notice. . . . .	51
8.4. Waiver of Notice. . . . .	51
8.5. Voting of Stock in Other Corporations . . . . .	51

ARTICLE IX - INDEMNIFICATION

9.1. Eligibility; Expenses . . . . .	52
9.2. Suit to Collect . . . . .	52
9.3. Nonexclusivity of Rights. . . . .	53
9.4. Insurance . . . . .	53

9.5. Expenses as a Witness . . . . . 53

9.6. Indemnity Agreements. . . . . 53

9.7. Continuation of Rights. . . . . 53

9.8. Amendment . . . . . 53

ARTICLE X - AMENDMENT OF BYLAWS

10.1. Amendment . . . . . 54

SNAP-ON INCORPORATED  
 AMENDED AND RESTATED BYLAWS

ARTICLE I - OFFICES

1.1. REGISTERED OFFICE AND AGENT. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware, and the name of the resident agent in charge thereof is the Corporation Trust Company of America.

1.2. OTHER OFFICES. The Corporation may have its principal executive office in the City of Kenosha, State of Wisconsin, and may also have offices at such other places as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II - THE STOCKHOLDERS

2.1. PLACE OF MEETINGS. All meetings of the stockholders, whether annual or special, shall be held at the offices of the Corporation in Kenosha, Wisconsin, or at such other place, within or without the State of Delaware, as may be fixed from time to time by the Board of Directors.

2.2. ANNUAL MEETING. An annual meeting of stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting.

2.3. QUORUM. A majority of the outstanding stock entitled to vote, present in person or by proxy duly authorized by the stockholder and filed with the Secretary, shall constitute a quorum at all meetings of the stockholders except as otherwise provided by law, by the Certificate of Incorporation or by these Bylaws. If, however, a majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person, or by proxy duly authorized by the stockholder and filed with the Secretary, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting of the place, date, and hour of the adjourned meeting, until a quorum shall be present or represented. At the adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting

as originally notified. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. The stockholders present at a duly organized meeting may continue to transact business until adjournment notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

2.4. VOTING. When a quorum is present at any meeting, and subject to the provisions of the General Corporation Law of the State of Delaware, the Certificate of Incorporation or these Bylaws in respect of the vote that shall be required for a specific action, the vote of the holders of a majority of the stock having voting power, present in person or represented by proxy duly authorized by the stockholder and filed with the Secretary, shall decide any question brought before the meeting, unless the question is one upon which, by express provision of the statutes or of the Certificate of Incorporation or of these Bylaws, a different vote is required, in which case the express provision shall govern and control the decision of such question. Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of Directors. Each stockholder shall have one vote for each share of stock having voting power registered in his name on the books of the Corporation, except as otherwise provided in the Certificate of Incorporation.

2.5. PROXIES. At any meeting of the stockholders, every stockholder having the right to vote shall be entitled to vote in person, or by proxy duly authorized and bearing a date not more than three years prior to said meeting, unless the proxy provides for a longer period. Without limiting the manner in which a stockholder may authorize another person or persons to act for him as proxy, the stockholder may validly grant such authority by:

(a) executing a writing to that effect, which execution may be accomplished by the stockholder or his authorized officer, director, employee or agent signing the writing or causing his signature to be affixed to the writing by any reasonable means including, but not limited to, by facsimile signature; or (b) transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. If it is determined that any telegram, cablegram or other electronic transmission submitted pursuant to clause (b) above is valid, the inspectors shall specify the information upon which they relied. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to the preceding sentence may be substituted or

37

used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

2.6. LIST OF STOCKHOLDERS. A complete list of the stockholders entitled to vote at each meeting of stockholders, arranged in alphabetical order, with the address of each as shown on the records of the Corporation, and the number of voting shares registered in the name of each in the records of the Corporation, shall be prepared by the Secretary and kept, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of

the meeting, or if not so specified at the place where the meeting is to be held for a period of at least ten (10) days prior to the meeting. During the ten (10) day period, during the usual business hours, and during the meeting, the list shall be open to the examination of any stockholder.

2.7. SPECIAL MEETINGS. Special meetings of stockholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the Chief Executive Officer, and shall be called by the Chief Executive Officer or Secretary at the request in writing of a majority of the members of the Board of Directors. Such request shall state the purpose or purposes of the proposed meeting.

2.8. NOTICE OF MEETINGS. Written notice of each meeting of stockholders, stating the date, time and place, and in the case of a special meeting the object thereof, shall be mailed, postage prepaid, not less than ten (10) nor more than sixty (60) days before the meeting, to each stockholder entitled to vote thereat, at the address of the stockholder which appears on the books of the Corporation.

#### 2.9. STOCKHOLDER NOMINATIONS AND PROPOSALS.

(a) At any meeting of stockholders, no business shall be conducted which has not been properly brought before the meeting. To be properly brought before a meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder.

(b) For stockholder nominations and/or proposals to be properly brought before a meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual

38

meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must so be received not later than the close of business on the tenth day following the day on which the notice of the date of the meeting was mailed or public disclosure was made, which ever first occurs.

(c) In the case of stockholder nominations for election to the Board of Directors, the notice shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in the notice, (ii) the principal occupations or employment of each nominee for the past five (5) years, (iii) the number of shares of the Corporation which are beneficially owned by each nominee, (iv) other directorships held by each nominee, (v) the names of business entities of which each nominee owns a ten percent (10%) or more beneficial interest and (vi) all other information with respect to each nominee as is required by the Federal proxy rules in effect at the time such notice is submitted. In addition, the notice shall be accompanied by a statement, over the signature of each proposed nominee, that the nominee consents to being a nominee and that if elected intends to serve as a Director, and confirming the information with respect to him set forth in the notice.

(d) In the case of stockholder proposals, the notice shall set forth (i) a brief description of the proposal or business desired to be

brought before the meeting and the reasons for conducting such business at the meeting, (ii) the name, age, business and residence address of the stockholder submitting the proposal, (iii) the principal occupation or employment of such stockholder, (iv) the number of shares of the Corporation which are beneficially owned by such stockholder and (v) any material interest of the stockholder in such proposal. The Chairman of the Board of Directors shall, if the facts warrant, determine and declare to the meeting that a proposal was not properly brought before the meeting in accordance with the provisions of this Section 2.9, and if he should so determine, and any proposal not properly brought before the meeting shall not be transacted. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any meeting except in accordance with the procedures set forth in this Section 2.9.

#### 2.10. VOTING PROCEDURES AND INSPECTORS OF ELECTIONS.

(a) The Corporation, by action of the Secretary, shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person

39

presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

(b) The inspectors shall (i) ascertain the number of shares outstanding and the voting power of each, (ii) determine the shares represented at a meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares represented at the meeting, and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors.

(c) The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery upon application by a stockholder shall determine otherwise.

(d) In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, any information provided in accordance with clause (b) of Section 2.5 of these Bylaws, ballots and the regular books and records of the Corporation, except that the inspectors may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for the limited purpose permitted herein, the inspectors at the time they make their certification pursuant to subsection (b)(v) of this Section shall specify the specific information considered by them including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was

obtained and the basis for the inspectors' belief that the information is accurate and reliable.

#### ARTICLE III - THE BOARD OF DIRECTORS

3.1. POWERS, NUMBER AND CLASSIFICATION OF DIRECTORS. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, which may

40

exercise all such powers of the Corporation and do all such acts and things as are not prohibited by the General Corporation Law of the State of Delaware nor by the Certificate of Incorporation nor by these Bylaws directed or required to be exercised or done by the stockholders. The number of Directors of the Corporation shall not be less than five (5) or more than fifteen (15) and such number may be fixed from time to time by a majority vote of the Directors then in office. The Board of Directors shall be divided into three classes as nearly equal in number as may be, with the term of office of one class expiring each year. When the number of Directors is changed, any increase or decrease in directorships shall be apportioned among the classes at the next annual meeting of stockholders so as to make all classes as nearly equal in number as possible. Subject to the foregoing, at each annual meeting of stockholders the successors to the class of Directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting, and each Director shall be elected to serve until his successor shall be elected and shall qualify.

3.2. VACANCIES. If the office of any Director or Directors becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, creation of a new directorship, or otherwise, a majority of the remaining Directors, though less than a quorum, shall choose a successor or successors, or a Director to fill the newly created directorship. In no event shall the shareholders have the right to fill such vacancies.

3.3. PLACE OF MEETINGS. The Directors may hold their meetings either outside of Delaware or at the office of the Corporation in the City of Kenosha, State of Wisconsin, or at such other places as they may from time to time determine.

3.4. REGULAR MEETINGS. There shall be five (5) regular meetings of the Board of Directors in each year, the first to be held, without other notice than this Bylaw, immediately following and at the same place as the annual meeting of stockholders. Subsequent regular meetings of the Board of Directors shall be held on the fourth Fridays of June, August, October, January and on the date of the annual meeting of stockholders, or at such other times as are prescribed by the Board of Directors. Notice of additional regular meetings, unless waived, shall be given by mail, telegram, telecopier, telex, telephone or in person to each Director, at his address as the same may appear on the records of the Corporation, or in the absence of such address, at his residence or usual place of business, at least three (3) days before the day on which the meeting is to be held.

3.5. SPECIAL MEETINGS. Special meetings of the Board of Directors may be held any time on the call of the Chief Executive Officer or at the request in writing of a majority of the members of the Board of Directors then in office. Notice of each special meeting, unless waived, shall be given by mail, telegram, telecopier, telex, telephone or in person to each Director at his address as the same appears on the records of the Corporation not less than one day prior to the day on which the meeting is to be held if the notice is by telegram, telecopier,

41

telex, telephone or in person, and not less than two days prior to the day on which the meeting is to be held if the notice is by mail; provided, however, that for purposes of dealing with an emergency situation, as conclusively determined by the Officer or Directors calling the meeting, notice may be given not less than two hours prior to the meeting. Notice of any special meeting need not state the purpose thereof. If the Secretary shall fail or refuse to give such notice, then the notice may be given by the Officer or any one of the Directors making the call. Attendance at any meeting of the Board of Directors shall constitute waiver of notice thereof unless the Director attends the meeting for the express purpose of objecting, and the Director objects at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

3.6. QUORUM; VOTING. At all meetings of the Board, a majority of the total number of Directors then fixed pursuant to Section 3.1 of these Bylaws shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation or by these Bylaws. In the absence of a quorum, a majority of the Directors present may adjourn the meeting from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given, except that notice shall be given to all Directors if the adjournment is for more than thirty (30) days.

3.7. QUORUM DURING EMERGENCY. During any emergency period following a national catastrophe, due to enemy attack, a majority of the surviving members of the Board, but in any case not less than five, who have not been rendered incapable of acting due to physical or mental incapacity or due to the difficulty of transportation to the place of the meeting shall constitute a quorum for the purpose of filling vacancies in the Board of Directors and among the elected and appointed Officers of the Corporation.

3.8. INFORMAL ACTION. Any action required or permitted to be taken at any meeting of the Board of Directors or any Committee thereof may be taken without a meeting, if a written consent to such action is signed by all members of the Board or of such Committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board or Committee.

3.9. MEETING BY TELEPHONE. Members of the Board of Directors, or any Committee designated by the Board, may participate in a meeting of the Board or Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this section shall constitute presence in person at the meeting.

3.10. COMPENSATION. Directors, as such, may receive compensation for their services and/or such fixed sums and expenses of attendance for attendance at each regular or special meeting of the Board of Directors as may be established by resolution of the Board; provided

that nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. Members of Committees may be allowed like compensation for attending Committee meetings. The Board Affairs and Nominating Committee shall annually recommend to the Board of Directors the appropriate compensation for the members of the Board of Directors.

3.11. COMMITTEES. Based upon the recommendations of the Board Affairs and Nominating Committee, the Board of Directors may, by resolution or resolutions passed by a majority of the total number of Directors then fixed pursuant to Section 3.1 of these Bylaws, designate one or more Committees, each Committee to consist of one or more of the Directors of the Corporation, which



Committees, to the extent provided in said resolution or resolutions, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation between meetings of the Board of Directors. The members and the Chairman of each Committee shall be appointed, and may be removed at any time, by resolution adopted by a majority of the total number of Directors then fixed pursuant to Section 3.1 of these Bylaws. No such Committee shall have the power or authority to authorize amending the Certificate of Incorporation, adopt an agreement of merger or consolidation, recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommend to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amend the Bylaws of the Corporation; and, unless the resolution, Bylaws, or Certificate of Incorporation expressly so provide, no Committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Such Committee or Committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Each Committee shall keep minutes of its proceedings, and shall report to the Board of Directors when required by the Board.

#### ARTICLE IV - OFFICERS

4.1. ELECTION AND REMOVAL OF CHAIRMAN OF THE BOARD OF DIRECTORS. At the regular meeting of the Directors held after the annual stockholders' meeting in each year, one of the Directors shall be elected to be the Chairman of the Board of Directors, which person may be removed from this position at any time by a majority vote of the total number of Directors then fixed pursuant to Section 3.1 of these Bylaws whenever in their judgment the best interests of the Corporation will be served by such action.

4.2. DUTIES OF THE CHAIRMAN OF THE BOARD OF DIRECTORS. The Chairman of the Board of Directors shall preside at all meetings of the stockholders and of the Directors. If he is also the Chief Executive Officer, he shall carry out those duties as designated herein. If he is not the Chief Executive Officer, he shall have no authority for the management and control of the business and affairs of the Corporation other than in his capacity as a Director.

43

4.3. OFFICERS. As contained within these Bylaws, except as otherwise provided for, all references to "Officers" shall apply to both Elected and Appointed Officers. The Elected Officers of the Corporation shall be a President, a Chief Executive Officer, a Chief Operating Officer, one or more Senior or Executive Vice Presidents, a Secretary, a Treasurer, a Controller, a Chief Financial Officer, a Vice President - Information Services and a Vice President - Human Resources. These Officers, and any other Officers which the Directors deem should be elected, shall be elected by the Directors at the regular meeting of the Board held after the annual stockholders' meeting in each year and at such other times as new elected offices are created by the Chief Executive Officer or vacancies in such elected offices must be filled. All other Officers of the Corporation shall be appointed by the Chief Executive Officer, as such appointed offices are deemed necessary by the Chief Executive Officer. Any two or more offices may be held by the same person.

4.4. REMOVAL. Any Officer elected by the Directors may be removed from office at any time by a majority vote of the total number of Directors then fixed pursuant to Section 3.1 of these Bylaws whenever in their judgment the best interests of the Corporation will be served by such action. Any appointed Officer may be removed at any time by the Chief Executive Officer.

4.5. DESIGNATION OF CHIEF EXECUTIVE OFFICER AND CHIEF OPERATING OFFICER. The Directors may, but need not, designate the Chairman of the Board of Directors as the Chief Executive Officer. The Directors shall designate the President as either the Chief Executive Officer or the Chief Operating Officer. The Directors may, but need not, designate an Executive Vice President as the

Chief Operating Officer. These designations of duties may be changed at any time by a majority vote of the total number of Directors then fixed pursuant to Section 3.1 of these Bylaws whenever in their judgment the best interests of the Corporation will be served by such action.

4.6. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall manage and control the overall business and affairs of the Corporation and ensure that the orders and resolutions of the Directors are carried into effect. He shall have the authority to represent and act for the Corporation, to sign documents binding the Corporation in all matters except those reserved to the Directors, to authorize other Officers designated by him to represent, act and sign for the Corporation and to assign to the other Officers the authority for the management and control of such business and affairs of the Corporation as he may designate. If the Chief Executive Officer is not a member of the Board of Directors, he shall be, EX OFFICIO, a member of all Committees of the Board of Directors not exercising powers of the Board other than the Audit Committee and Organization & Executive Compensation Committee and shall have all the same rights and duties, except the right to vote, as have all members of the Committee. If he is a Director he shall be, EX OFFICIO, a member of all Committees of the Board of Directors exercising powers of the Board other than the Audit Committee and Organization & Executive Compensation Committee, and shall have all the same rights and duties, including the right to vote, as have all members of the Committees. The Chief Executive Officer may review pertinent director

44

compensation survey data and report these results to the Board Affairs and Nominating Committee.

4.7. CHIEF OPERATING OFFICER. The Chief Operating Officer shall have authority for the management and control of such business and affairs of the Corporation as shall be assigned by the Chief Executive Officer or the Board of Directors. In the event of the absence or disability of the Chief Executive Officer, he shall perform those duties as designated herein of the Chief Executive Officer.

4.8. PRESIDENT. The President shall perform the duties as designated herein of the Chief Executive Officer or the Chief Operating Officer. In the absence of the Chairman of the Board of Directors he shall preside at all meetings of the stockholders and the Directors.

4.9. EXECUTIVE VICE PRESIDENTS. Executive Vice Presidents shall have authority for the management and control of such business and affairs of the Corporation as shall be assigned by the Chief Executive Officer or the Board of Directors. If an Executive Vice President is the appointed Chief Operating Officer, he shall perform those duties as designated herein. In the absence or disability of the Chief Executive Officer and of the Chief Operating Officer, an Executive Vice President designated by the Chief Executive Officer or the Board of Directors shall perform the duties as designated herein of the Chief Executive Officer.

4.10. SENIOR VICE PRESIDENTS. Senior Vice Presidents shall have authority for the management and control of such business and affairs of the Corporation as shall be assigned by the Chief Executive Officer or the Board of Directors. In the event that there is no individual currently holding such office of the Chief Executive Officer, of the Chief Operating Officer, or of the Executive Vice President, or in the event that such individual is absent or disabled, a Senior Vice President designated by the Chief Executive Officer or the Board of Directors shall perform the duties as designated herein of the Chief Executive Officer.

4.12. CHIEF FINANCIAL OFFICER. The Chief Financial Officer shall be an Elected Officer and shall have the authority for the management and control of such business and affairs as shall be assigned by the Chief Executive Officer or the Board of Directors.

4.13. ELECTED VICE PRESIDENTS. The Elected Vice Presidents shall have authority for the management and control of such business and affairs of the Corporation as shall be assigned by the Chief Executive Officer or the Board of Directors.

4.14. APPOINTED OFFICERS. Appointed Officers shall have authority for the management and control of such business and affairs of the Corporation as shall be assigned by the Chief Executive Officer.

4.15. SECRETARY. The Secretary shall attend all sessions of the Board and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept

45

for that purpose; and shall perform like duties for the standing Committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board of Directors, and shall perform such other duties as from time to time may be prescribed by the Board of Directors or the Chief Executive Officer of the Corporation. The Secretary shall keep in safe custody the Seal of the Corporation, and when authorized by the Board, affix it to any instrument requiring it.

4.16. TREASURER. The Treasurer shall:

- (a) have the custody of the corporate funds and securities and shall keep or cause to be kept full and accurate accounts of the financial affairs of the Corporation;
- (b) deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors;
- (c) disburse or cause to be disbursed the funds of the Corporation as may be ordered by the Board of Directors;
- (d) render to the Chief Executive Officer and Directors, at the regular meetings of the Board or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition of the Corporation;
- (e) give the Corporation a bond, if required by the Board of Directors, in a sum and with one or more sureties satisfactory to the Board, for the faithful performance of the duties of his office; and
- (f) perform all the duties incident to the office of Treasurer and such other duties as from time to time may be prescribed by the Board of Directors or by the Chief Executive Officer of the Corporation.

4.17. CONTROLLER. The Controller shall maintain proper audit control over the operations of the Corporation and be generally responsible for the accounting system employed by the Corporation and the accounting practices adopted by the various departments; he shall direct the budgetary control, general accounting, cost accounting and statistical activities of the Corporation; and he shall supervise activities in connection with credits and collections, taxes and physical inventories. The Controller shall prepare and furnish such reports and statements showing the financial condition of the Corporation as shall be required of him by the Chief Executive Officer or the Board of Directors, and shall perform such other duties as the Chief Executive Officer or the Board of Directors shall prescribe.

46

4.18. DELEGATION OF DUTIES. In the case of the absence, incapacity, or inability to serve of any Elected Officer of the Corporation, the Board may delegate, for so long as may be necessary, the powers or duties, or any of them, of the Elected Officer to any other Elected Officer, or to any Director provided a majority of the total number of Directors then fixed pursuant to Section 3.1 of these Bylaws concurs therein. In the case of the absence, incapacity, or inability to serve of any Appointed Officers of the Corporation, the Chief Executive Officer may delegate, for so long as may be necessary, the powers or duties, or any of them, of that appointed Officer to any Elected or Appointed Officer.

4.19. COMPENSATION. The compensation, if any, of the Chairman of the Board of Directors, the President, the Chief Executive Officer and the Chief Operating Officer shall be fixed by the Directors after reviewing the recommendations of the Organization and Executive Compensation Committee. The compensation of all other Officers shall be fixed by Organization and Executive Compensation Committee in consultation with the Chief Executive Officer.

4.20. BONDS. If the Board of Directors or the Chief Executive Officer shall so require, any Officer or agent of the Corporation shall give bond to the Corporation in such amount and with such surety as the Board of Directors or the Chief Executive Officer, as the case may be, may deem sufficient, conditioned upon the faithful performance of their respective duties and offices.

#### ARTICLE V - CERTIFICATES OF STOCK AND THEIR TRANSFER

5.1. REGULATION. Subject to the terms of any contract of the Corporation, the Board of Directors may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation, including the issuance of new certificates for lost or destroyed certificates, and including the appointment of transfer agents and registrars.

5.2. FORM OF CERTIFICATES. The certificates of stock of the Corporation shall be numbered and shall be entered in the books of the Corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed by the Chairman of the Board, the President or an Elected or Appointed Vice President, and the Treasurer, or the Secretary. If the Corporation has a transfer agent or an assistant transfer agent or a transfer clerk acting on its behalf and a registrar, the signature of any officer may be facsimile. Facsimile signatures may be of the Officers of the Corporation designated above who are Officers at the time of the issuance of the certificates or who were such at the time of the printing or engraving of the certificates whether or not the person has continued to hold that office. The designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations, or restrictions of the

preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent the class or series of stock, provided that, except as provided to the contrary by the General Corporation Law of the State of Delaware, in lieu of the foregoing requirements there may be set forth on the certificate a statement that the Corporation will furnish without charge to each stockholder who so requests the preferences and rights and qualifications, limitations or restrictions.

5.3. TRANSFER OF CERTIFICATES. Shares of the capital stock of the Corporation shall be transferable on the books of the Corporation by the holder thereof in person or by his duly authorized attorney, upon the surrender or cancellation of a certificate or certificates for a like number of shares. As against the Corporation, a transfer of shares can be made only on the books of the Corporation and in the manner hereinabove provided, and the Corporation shall be entitled to treat the registered holder of any share as the owner

thereof and shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save expressly provided by the statutes of the State of Delaware.

#### 5.4. RECORD DATE.

(a) If no record date is fixed pursuant to Section 5.6 of these Bylaws, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board of Directors to fix a record date. The Board of Directors shall promptly, but in all events within ten (10) days after the date on which such a request is received, adopt a resolution fixing the record date. If no record date has been fixed by the Board of Directors within ten (10) days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by

48

the Board of Directors is required by applicable law, shall be the first date thereafter on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of stockholders meetings are recorded, to the attention of the Secretary of the Corporation. Delivery shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by applicable law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board of Directors adopts the resolution taking such prior action.

5.5. LOST OR DESTROYED CERTIFICATES. Any person claiming a certificate of stock to be lost or destroyed shall make an affidavit or affirmation of that fact and advertise the same in such manner as the Board of Directors may require, and the Board of Directors may, in its discretion, require the owner of the lost or destroyed certificate or his legal representative to give the Corporation a bond, in such sum as it may direct, not exceeding double the value of the stock, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss of any such certificate; a new certificate of the same tenor and for the same number of shares as the one alleged to be lost or destroyed may be issued without requiring any bond when, in the judgment of the Directors, it is proper to do so.

5.6. STOCK TRANSFER BOOKS; RECORD DATE. The Board of Directors shall have power to close the stock transfer books of the Corporation for a period not exceeding sixty (60) days preceding the date of any meeting of stockholders or the date for payment of any dividend or the date for the allotment of rights or the date when any change or conversion or exchange of capital stock shall go into effect provided, however, that in lieu of closing the stock transfer books as aforesaid the Board of Directors may by resolution fix a date, not preceding the date of the resolution, not more than sixty (60) nor less than ten (10) days preceding the date of any meeting of stockholders or not more than sixty (60) days preceding the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, and in such case such stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

49

5.7. CONSENT OF STOCKHOLDERS IN LIEU OF MEETING. In the event of the delivery to the Corporation of a written consent or consents purporting to authorize or take corporate action and/or related revocations (each such written consent and any revocation thereof is referred to in this Section 5.7 as a "Consent"), the Secretary of the Corporation shall provide for the safekeeping of such Consents and shall as soon as practicable thereafter conduct such reasonable investigation as he or she deems necessary or appropriate for the purpose of ascertaining the validity of such Consents and all matters incident thereto, including, without limitation, whether the holders of shares having the requisite voting power to authorize or take the action specified in the Consents have given consent; provided, however, that if the corporate action to which the Consents relate is the removal or election of one or more members of the Board of Directors, the Secretary of the Corporation shall designate an independent, qualified inspector with respect to such Consents and such inspector shall discharge the functions of the Secretary of the Corporation under this Section 5.7. If after such investigation the Secretary or the inspector (as the case may be) shall determine that any action purportedly taken by such Consents has been validly taken, that fact shall be certified on the records of the Corporation kept for the purpose of recording the proceedings of meetings of the stockholders and the Consents shall be filed with such records. In conducting the investigation required by this Section 5.7, the Secretary or the inspector may, at the expense of the Corporation, retain to assist them special legal counsel and any other necessary or appropriate professional advisors, and such other personnel as they may deem necessary or appropriate.

#### ARTICLE VI - BOOKS AND ACCOUNTS

6.1. LOCATION. The books, accounts, and records of the Corporation may be kept at such place or places within or without the State of Delaware as the Board of Directors may from time to time determine.

6.2. INSPECTION. The books, accounts, and records of the Corporation shall be open to inspection by any member of the Board of Directors during usual business hours for any purpose reasonably related to the Director's position as a Director; and open to inspection by the stockholders at such times, and subject to such regulations, as the Board of Directors may prescribe, except as otherwise provided by statute.

ARTICLE VII - CHECKS, NOTES, CONTRACTS, ETC.

7.1. CHECKS; NOTES. All checks or demands for money and notes of the Corporation shall be signed by such Officer or Officers or such other person or persons as the Board of Directors may from time to time designate.

50

7.2. EXECUTION OF CORPORATE CONTRACTS. Except as otherwise provided by the Board of Directors or the Executive Committee, all contracts of the corporation shall be executed on its behalf by the President, an Elected or Appointed Vice President or such other person or persons as the President or Vice President may from time to time authorize so to do. Whenever the Board of Directors or the Executive Committee shall provide that any contract be executed or any other act be done in any other manner and by any other officer or agent than as specified in the Bylaws, such method or execution or action shall be as equally effective to bind the Corporation as if specified herein.

ARTICLE VIII - MISCELLANEOUS

8.1. FISCAL YEAR. The fiscal year shall end on the Saturday nearest December 31.

8.2. CORPORATE SEAL. The Corporate Seal shall have inscribed thereon the name of the Corporation, and the words "Corporate Seal, Delaware." Said Seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

8.3. NOTICE. Any notice required to be given under the provisions of these Bylaws to any Director, Officer or stockholder may be given in writing, by depositing the same in the United States mail, postage pre-paid, addressed to the stockholder, Officer or Director at his or her address appearing on the books of the Corporation, and the notice shall be deemed to be given at the time when so mailed; provided that no notice need be given to any stockholder to whom (i) notice of two consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting to such person during the period between the two (2) consecutive annual meetings, or (ii) all, and at least two, payments (if sent by first class mail) of dividends during a twelve (12) month period, have been mailed addressed to such stockholder at his address as shown on the records of the Corporation and have been returned undeliverable.

8.4. WAIVER OF NOTICE. Any stockholder, Director or Officer may waive any notice required to be given under these Bylaws, in writing signed by the person entitled to notice, either before or after the meeting.

8.5. VOTING OF STOCK IN OTHER CORPORATIONS. Any shares of stock in any other corporation which may from time to time be held by this Corporation may be represented and voted at any meeting of shareholders of such corporation by the Chief Executive Officer or an Elected or Appointed Vice President, or by any other person or persons thereunto authorized by the Board of Directors, or by any proxy designated by written instrument of appointment executed in the name of this Corporation by its Chief Executive Officer or an Elected or Appointed Vice President. Shares of stock belonging to the Corporation need not stand in the name of the Corporation, but may be held for the benefit of the Corporation in the individual

51

name of the Treasurer or of any other nominee designated for the purpose by the Board of Directors. Certificates for shares so held for the benefit of the Corporation shall be endorsed in blank or have proper stock powers attached so

that said certificates are at all times in due form for transfer, and shall be held for safekeeping in such manner as shall be determined from time to time by the Board of Directors.

#### ARTICLE IX - INDEMNIFICATION

9.1. ELIGIBILITY; EXPENSES. Each director and officer of the Corporation (collectively, the "Indemnitees") who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he, or a person of whom he is the legal representative, is or was a Director or Officer of the Corporation or is or was serving at the request of the Corporation as a Director, Officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall be indemnified and held harmless by the Corporation to the fullest extent permitted by the laws of Delaware against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such Indemnitees in connection therewith. The right to indemnification conferred in this Section shall be a contract right. Each Indemnitee shall have the right to be paid by the Corporation the expenses incurred in defending any such proceeding, except the amount of any settlement, in advance of such proceeding's final disposition upon receipt by the Corporation of an undertaking, by or on behalf of such Indemnitee, to repay all amounts so advanced if it shall ultimately be determined that the Indemnitee is not entitled to be indemnified under this Section or otherwise. The Corporation may, by action of its Board of Directors, indemnify and hold harmless employees and agents of the Corporation to the fullest extent permitted by the laws of Delaware against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such employees and agents in connection therewith. The Corporation may pay expenses of any employee or agent of the Corporation incurred in defending any such proceeding, except the amount of any settlement, in advance of such proceeding's final disposition upon such terms and conditions, if any, as the Board of Directors of the Corporation deems appropriate.

9.2. SUIT TO COLLECT. If a claim under Section 9.1 above is not paid in full by the Corporation within thirty (30) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. It shall be a defense to any action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in

52

advance of its final disposition where the required undertaking has been tendered to the Corporation) that the claimant has failed to meet a standard of conduct which makes it permissible under Delaware law for the Corporation to indemnify the claimant for the amount claimed. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he has met such standard of conduct, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met such standard of conduct, nor the termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall be a defense to the action or create a presumption that the claimant has failed to meet the required standard of conduct.

9.3. NONEXCLUSIVITY OF RIGHTS. The right to indemnification and the



payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in these Bylaws shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested Directors or otherwise.

9.4. INSURANCE. The Corporation may maintain insurance, at its expense, to protect itself and any Director, Officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under Delaware law.

9.5. EXPENSES AS A WITNESS. To the extent that any Director, Officer, employee or agent of the Corporation is by reason of such position, or a position with another entity at the request of the Corporation, a witness in any proceeding, he shall be indemnified against all costs and expenses actually and reasonably incurred by him or on his behalf in connection therewith.

9.6. INDEMNITY AGREEMENTS. The Corporation may enter into indemnity agreements with the persons who are members of its Board of Directors from time to time, and with such Officers, employees and agents as the Board may designate, providing in substance that the Corporation shall indemnify such persons to the fullest extent permitted by Delaware law.

9.7. CONTINUATION OF RIGHTS. The indemnification and advancement of expenses provided by this Article IX shall continue as to a person who has ceased to be a Director, Officer, employee or agent of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such a person.

9.8. AMENDMENT. Any amendment, repeal or modification of any provision of this Article IX by the stockholders or the Directors of the Corporation shall not adversely affect any right or protection of a Director or Officer of the Corporation existing at the time of such amendment, repeal or modification.

53

#### ARTICLE X - AMENDMENT OF BYLAWS

10.1. AMENDMENT. The Board of Directors, by affirmative vote of a majority of the total number of Directors then fixed pursuant to Section 3.1 of these Bylaws, may adopt, amend, or repeal these Bylaws at any meeting, subject to the provisions of Article Seventh of the Certificate of Incorporation. Subject to the provisions of Article Seventh of the Certificate of Incorporation, these Bylaws may also be amended or repealed, and new Bylaws adopted, by the stockholders; provided, however, that any amendment or repeal of Section 2.7, Section 2.9 or Section 3.2 hereof may be made only by vote of at least seventy-five percent (75%) of the issued and outstanding common stock of the Corporation of the shares entitled to vote thereon at any annual meeting or special meeting of stockholders, and only if notice of the proposed amendment or repeal is contained in the notice of the meeting.

54

EXHIBIT (13)

ANNUAL REPORT TO SHAREHOLDERS

The Annual Report of Snap-on Incorporated for the year ended December 31, 1994 is attached.

S N A P - O N I N C O R P O R A T E D 1 9 9 4 A N N U A L R E P O R T

FINANCIAL REVIEW CONTENTS

Management's Discussion	18
Consolidated Financial Statements	23
Notes to Consolidated Financial Statements	27
Auditor's Report	37
Eleven-year Summary	38

MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL REPORTING

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

The Corporation's consolidated financial statements have been audited by Arthur Andersen LLP, independent public accountants, whose report thereon appears on page 37. As part of their audit of the Corporation's consolidated financial statements, Arthur Andersen LLP considered the Corporation's system of internal control to the extent they deemed necessary to determine the nature, timing and extent of their audit tests. Management has made available to Arthur Andersen LLP the Corporation's financial records and related data.

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

/s/ Robert A. Cornog

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Robert A. Cornog  
President and Chief Executive Officer

/s/ Donald S. Huml

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Donald S. Huml  
Chief Financial Officer

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

FISCAL YEARS 1994, 1993 AND 1992  
RESULTS OF OPERATIONS

OVERVIEW 1994 consolidated net sales increased 5.5%, following an increase of 15.1% in 1993. 1993 sales benefited from the inclusion of full-year results for Sun Electric Corporation ("Sun") following its acquisition in the fourth quarter of 1992. Overall sales gains in North America and double-digit increases in other foreign markets were offset by a decline in 1994 European sales, due to slower equipment sales upon completion of Germany's emissions-testing program start-up.

Consolidated net earnings increased 14.6% in 1994 following a 30.1% increase in 1993. The 1994 earnings improvement was attributable to lower operating expenses as a percent of net sales, primarily due to reduced legal expenses and cost reductions associated with inventory and field service consolidations.

(AMOUNTS IN THOUSANDS)	1994	1993	1992
Net earnings	\$98,314	\$85,812	\$65,975
Earnings per common share	\$ 2.30	\$ 2.02	\$ 1.56

SALES Sales in North America increased 6.4% in 1994, following an increase of 4.9% in 1993. 1994 sales benefited from inclusion of full-year results for J.H. Williams Company ("Williams"), acquired in September 1993, and partial year results for Wheeltronic Ltd. ("Wheeltronic") and Sioux Tools, Inc. ("Sioux"), acquired in September and November 1994, respectively. U.S. sales, exclusive of Williams and Sioux, rose modestly. Sales in Canada increased by 8.7% in Canadian dollars and by 2.7% in U.S. dollars after foreign currency translation. Industrial sales, exclusive of Williams and Sioux, were flat, but including these acquisitions increased 11.1%.

Sales in Europe declined 3.7%, following an increase of 78.3% in 1993 that reflected inclusion of full-year results for Sun. Strong demand for SUN emissions-testing equipment in Germany benefited sales in 1994 and 1993, offsetting weaker diagnostic equipment sales throughout Europe. Dealer sales in the U.K. and Europe strengthened in the fourth quarter, reflecting improving local economies.

Sales in other markets increased 25.9% in 1994 after increasing 60.9% in 1993 with the inclusion of Sun. Gains were primarily in Japan and Australia.

(AMOUNTS IN THOUSANDS)	1994	1993	1992
North American sales			
(U.S., Canada, Mexico) \$	938,126	881,817	\$840,350
European sales	191,648	198,941	111,598
Other sales	64,522	51,252	31,852
Total sales	\$1,194,296	\$1,132,010	\$983,800

The Corporation offers four primary product groups--hand tools, power tools, storage equipment, and shop and diagnostic equipment. These product groups experience varying unit volume levels from year to year. Hand tool volume rose modestly, reflecting increased dealer sales in foreign markets and added sales to industrial distributor customers as a result of the Williams acquisition. Sales in the automotive service market remained steady, reflecting the effectiveness of the Corporation's dealer sales program in sustaining volume despite improved vehicle quality that results in less frequent service and repair, simpler designs requiring fewer fasteners, and slower turnover among technicians. Power tool sales improved sharply, reflecting a broader product line (including part-year results for Sioux), improved product quality, increased promotion and growing customer acceptance. Diagnostic and shop equipment recorded double-digit increases in the U.S., reflecting the growing effectiveness of the SNAP-ON/SUN TECH SYSTEMS PROGRAM, the introduction of new products, the expansion of training programs, the acquisition of Wheeltronic, and a strategic alliance with Alldata Corporation to sell automotive service and repair information. Emissions-testing programs required under the Clean Air Act and in the European Common Market are expected to drive growth in this category, but the timing of such programs is uncertain. Storage equipment sales increased modestly.

During the year, the Corporation increased prices by varying degrees in each of its product groups. List price increases averaged 3.5% in both 1994 and 1993. Increased promotional activities reduced the revenue realization of these price increases.

**COST AND PROFIT MARGINS** Gross profit margins were 51.0% in 1994, compared with 52.6% in 1993 and 51.8% in 1992. Gross margins were lower in 1994 primarily as a result of lower manufacturing activity to reduce inventories in the United States following consolidation of branch warehouse inventories into four regional distribution centers. These planned manufacturing variances were offset, in part, by a \$4.9 million favorable LIFO decrement. 1992 gross margins benefited from a \$6.1 million LIFO decrement.

Operating expenses as a percent of net sales before net finance income declined to 42.7% compared with 45.0% in 1993, and 46.5% in 1992. In 1994, higher expenses associated with the full-year operation of Williams and partial-year operation of Wheeltronic and Sioux were offset by reduced legal expense and savings associated with the inventory and customer service consolidation programs. Total operating expenses before net finance income increased by \$0.5 million, following increases of \$52.5 million in 1993 (Sun integration, U.S. inventory and customer service consolidation) and \$86.7 million in 1992 (partial-year Sun expense, additional payroll related to added sales representatives, and legal expenses). For additional information regarding certain litigation, refer to Note 4.

Net finance income was \$59.4 million in 1994, \$61.1 million in 1993 and \$63.6 million in 1992. The decrease in net finance income was a result of an increase in leasing activity, which has a lower effective interest rate than extended credit contracts.

In the first quarter of 1994, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 112, "Employers' Accounting for Postemployment

Benefits." This statement establishes certain accounting standards for employers who provide certain benefits to former or inactive employees, their beneficiaries, and covered dependents after employment but before retirement. Adoption of the standard had no material effect on the Corporation's financial condition or results of operations.

OTHER INCOME AND EXPENSES Interest expense in 1994 totaled \$10.8 million compared with \$11.2 million in 1993.

(AMOUNTS IN THOUSANDS)	1994	1993	1992
Interest expense	\$ (10,806)	\$ (11,198)	\$ (5,969)
Interest income	2,799	1,971	2,100
Other income (expense)	3,781	(1,215)	(2,231)
Total other expense	\$ (4,226)	\$ (10,442)	\$ (6,100)

INCOME TAXES " The Corporation adopted in the first quarter of 1992 Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." Under SFAS 109, the balance sheet reflects deferred tax assets and liabilities and the tax benefit of net operating loss carryforwards at enacted tax rates to the extent that realization of such benefits is more likely than not.

The Corporation has recorded significant deferred tax assets related to inventories, employee benefits, reserves and accruals not currently deductible, and other items. Based upon the historical performance of the Corporation, it is expected that these items will be realized through future taxable income.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The Corporation has U.S. tax net operating loss carryforwards (NOLs) acquired in the Sun acquisition totaling \$68.0 million which expire as follows: 1998-\$15.7 million, 2000-\$11.3 million, 2001-\$13.4 million, 2002-\$1.3 million, 2004-\$14.0 million, 2006-\$11.9 million and 2007-\$0.4 million. The Corporation has assessed the likelihood of utilization of these losses. The U.S. NOLs are expected to be realized through the consolidated and restructured equipment operations. A \$3.7 million valuation allowance has been established based upon an analysis of future utilization of these NOLs. The valuation allowance offsets a portion of the deferred income tax benefits recorded as a long-term asset.

The Corporation also has foreign tax NOLs of \$18.3 million resulting from operations primarily in Australia, Brazil, Canada and the Netherlands. These losses expire as follows: 1997-\$1.5 million, 1998-\$0.1 million, 1999-\$0.2 million, 2000-\$0.2 million and 2001-\$0.3 million. The remaining foreign tax net operating losses may be carried forward indefinitely. A valuation allowance has been established in the amount of \$6.2 million. These subsidiaries produced operating losses during a period of aggressive new market development. If the realization of these benefits becomes more likely than not in the future, the valuation allowance will be reduced or eliminated.

The Corporation's effective tax rate was 36.0% in 1994, 37.1% in 1993 and 39.8% in 1992. See Note 6 for the reconciliation of the Corporation's effective tax rate.

OTHER MATTERS During 1994, the Corporation acquired Wheeltronic, a leading manufacturer of quality above-ground lifts for the automotive repair market, and Sioux, a leading manufacturer of quality portable power tools for the industrial market. Wheeltronic enables the Corporation to expand its line of automotive shop equipment products. Sioux, with a line of 4,500 pneumatic and electric power tools and related service items, expands the Corporation's entry into the industrial distributor channel, which began with the 1993 acquisition of Williams.

Also in 1994, Sun introduced a line of repair-grade emissions-testing equipment that will enable shops to meet the service and repair requirements of a new, dynamic vehicle emissions-testing sanctioned by the Environmental Protection Agency (EPA) to comply with the Clean Air Act Amendments of 1990. The new program is known as I/M240, referring to the four-minute inspection and maintenance test which may be utilized in 83 metropolitan areas to comply with the Clean Air Act Amendments affecting some 55 million vehicles annually. Repair-grade equipment will be sold in markets where states adopt centralized testing programs. Sun also is seeking state approvals for inspection-grade emission-testing equipment it has developed to enable individual automotive service shops to participate in

20

decentralized testing programs where states adopt them.

Opposition to centralized testing and certain aspects of the Clean Air Act Amendments of 1990 has caused some states to delay implementation of centralized programs. In addition, some political leaders have called for modifications to certain Clean Air Act Amendments which the EPA has interpreted as requiring such centralized programs to get the maximum state implementation credit. The Corporation supports efforts to ensure clean air and is committed to providing equipment needed by its customers to participate in emissions-testing programs. The Corporation generally has not taken a position in favor of any particular testing approach. The Corporation believes some new type of emissions-testing (and perhaps a mix of centralized and decentralized programs) is likely to be implemented, creating significant growth opportunity for the Corporation.

In September 1994, the Corporation sold Systems Control Inc., a subsidiary of Sun that provided centralized vehicle emissions-testing services to various government entities, including the states of Maine, Michigan, Texas and Washington. The Corporation arranged the sale, in part, to avoid any potential appearance of a conflict of interest with its sale of repair-grade emissions-testing equipment and emissions-testing training services to shop customers. Refer to Note 12 for a discussion of the Corporation's guarantees relative to Systems Control.

REPURCHASE PROGRAM " In January 1995, the Board of Directors approved and the Corporation subsequently announced a common stock repurchase program of up to \$100 million to be executed from time to time in the open market and by block purchases. It reflects the Corporation's belief that its shares had been undervalued in light of the attractive opportunities in its core market and its growth potential in both the United States and international markets. The program provides the Corporation with an opportunity to lower its cost of capital and create value for its shareholders.

#### FINANCIAL CONDITION

OVERVIEW The Corporation ended 1994 in strong financial condition. The

Corporation's capital structure remained solid, with total debt amounting to 13.5% of total capital, compared with 19.3% as of year-end 1993.

LIQUIDITY The Corporation's working capital increased by \$88.6 million in 1994 and by \$31.0 million in 1993. The Corporation's ratio of current assets to current liabilities was 3.7 to 1 at the end of 1994, compared with 2.8 to 1 at the end of 1993. Cash and short-term investments were \$9.0 million, an increase of \$2.3 million from the previous year.

Accounts receivable increased by \$28.4 million to \$568.4 million, primarily due to an increase in the number of high-value equipment leases provided by the Corporation. A majority of the Corporation's accounts receivable reflects the purchase of dealers' customers' extended credit purchase agreements. These installment contracts currently average approximately 18 months in duration. The remaining accounts receivable include those from dealers, industrial customers and governments. Total writeoffs for bad debts decreased 22.6% in 1994 reflecting the beneficial effects of the consolidation of billing and credit services in regional customer service centers and a concerted effort to improve collections.

Inventories decreased by \$20.1 million to \$229.0 million in 1994. U.S. inventories decreased by \$36.9 million with the completion of the Corporation's inventory consolidation program and subsequent reduction in manufacturing activity. These reductions were offset by additions to inventory resulting from the Wheeltronic and Sioux acquisitions and a LIFO inventory decrement. The Corporation anticipates returning to

21

normal manufacturing levels to support sales in 1995.

(AMOUNTS IN THOUSANDS)	1994	1993
Current assets	\$873,020	\$854,598
Current liabilities	237,869	308,037
Working capital	\$635,151	\$546,561
Current ratio	3.7 to 1	2.8 to 1

Short-term debt at the end of 1994 was \$10.9 million, down from \$68.3 million at the end of 1993. Current maturities of long-term debt (classified in Other Accrued Liabilities) were \$0.3 million at the end of 1994 and \$2.0 million at the end of 1993. In addition, at year-end 1994, the Corporation had \$95.5 million in short-term commercial notes payable outstanding that were classified as long-term since it is the Corporation's intent and it has the ability to refinance this debt on a long-term basis, supported by its \$100 million revolving credit facility.

At year-end 1994, the Corporation had bank credit lines totaling \$50 million for short-term borrowing, including support of commercial paper issuance. It also had on file a \$300 million shelf registration which allows the Corporation to offer for sale from time to time up to \$300 million of unsecured indebtedness. These sources of borrowing, coupled with cash from operations, are sufficient to

support working capital requirements, finance capital expenditures, pay dividends and repurchase shares. The Corporation's high credit rating over the years has ensured that external funds are available at reasonable cost. At year-end 1994, the Corporation's long-term debt ratings established by Moody's Investor Service and Standard and Poor's were Aa3 and AA, respectively. The strength of the Corporation's balance sheet provides the financial flexibility to respond to opportunities for growth internally and through acquisition.

**CAPITAL EXPENDITURES** Capital investments in 1994 included normal replacement and upgrading of manufacturing facilities and equipment, upgrading and integration of the Corporation's computer systems, and construction of a corporate office facility. In addition, \$7.9 million in capital investment was made in support of the start-up of centralized emissions-testing facilities in Maine prior to the sale of Systems Control. The Corporation anticipates capital expenditures totaling \$30-35 million in 1995.

(AMOUNTS IN THOUSANDS)	1994	1993
Capital expenditures	\$41,788	\$33,248
Depreciation and amortization	\$29,632	\$32,131

**DIVIDENDS** " The Corporation currently maintains a policy which calls for the payment of approximately 35% of net earnings in dividends. Although earnings results in recent years have resulted in a payout in excess of this percentage, the Corporation has maintained its current dividend rate. The Corporation anticipates returning to its historical payout rate through continued earnings improvement, as evidenced by the results of 1994, rather than through payout reduction. The Corporation has paid consecutive quarterly cash dividends since 1939.

(AMOUNTS IN THOUSANDS)	1994	1993
Cash dividends paid	\$46,197	\$45,942
Cash dividends per common share	\$ 1.08	\$ 1.08
Cash dividends as % of net income	47.0%	53.5%

**CONSOLIDATED STATEMENTS OF EARNINGS**

(AMOUNTS IN THOUSANDS EXCEPT SHARE DATA) FOR FISCAL YEARS	1994	1993	1992
Net sales	\$1,194,296	\$1,132,010	\$983,800
Cost of goods sold	585,459	536,282	474,387



GROSS PROFIT	608,837	595,728	509,413
Operating expenses	510,361	509,910	457,384
Net finance income	(59,419)	(61,115)	(63,646)
OPERATING EARNINGS	157,895	146,933	115,675
Interest expense	(10,806)	(11,198)	(5,969)
Other income (expense) - net	6,580	756	(131)
EARNINGS BEFORE INCOME TAXES	153,669	136,491	109,575
Income taxes	55,355	50,679	43,600
NET EARNINGS	\$ 98,314	\$ 85,812	\$ 65,975
EARNINGS PER WEIGHTED AVERAGE COMMON SHARE	\$ 2.30	\$ 2.02	\$ 1.56
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	42,791,916	42,570,783	42,343,781

The accompanying notes are an integral part of these statements.

23

## CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS)	DECEMBER 31, 1994	JANUARY 1, 1994
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,015	\$ 6,729
Accounts receivable, less allowance for doubtful accounts of \$13.2 million in 1994 and \$14.9 million in 1993	568,378	539,949
Inventories	229,037	249,102
Prepaid expenses and other assets	66,590	58,818
<b>TOTAL CURRENT ASSETS</b>	<b>873,020</b>	<b>854,598</b>
Property and equipment - net	209,142	224,810
Deferred income tax benefits	56,695	53,819
Intangible and other assets	96,048	85,706
<b>TOTAL ASSETS</b>	<b>\$1,234,905</b>	<b>\$1,218,933</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 56,679	\$ 57,280
Notes payable	10,631	66,288
Accrued compensation	29,957	33,515
Dealer deposits	65,494	62,153
Accrued income taxes	4,744	8,474
Other accrued liabilities	70,364	80,327
<b>TOTAL CURRENT LIABILITIES</b>	<b>237,869</b>	<b>308,037</b>
Long-term debt	108,980	99,683
Deferred income taxes	6,264	7,413
Retiree health care benefits	76,833	70,791
Other long-term liabilities	38,561	31,346
<b>TOTAL LIABILITIES</b>	<b>468,507</b>	<b>517,270</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock - authorized 15,000,000 shares of \$1 par value; none outstanding	-	-
Common stock - authorized 125,000,000 shares of \$1 par value; issued 43,128,496	-	-

and 42,818,696 shares	43,128	42,819
-----	-----	-----
Additional contributed capital	61,827	52,153
-----	-----	-----
Retained earnings	684,139	632,022
-----	-----	-----
Foreign currency translation adjustment	(13,384)	(16,019)
-----	-----	-----
Less: Treasury stock at cost - 250,000 shares	(9,312)	(9,312)
-----	-----	-----
TOTAL SHAREHOLDERS' EQUITY	766,398	701,663
-----	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,234,905	\$1,218,933
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The accompanying notes are an integral part of these statements.

24

#### CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS) FOR FISCAL YEARS	1994	1993	1992
-----	-----	-----	-----
COMMON STOCK			
Amount at beginning of year	\$ 42,819	\$ 42,415	\$ 42,211
-----	-----	-----	-----
Shares issued under stock purchase and option plans	291	389	186
-----	-----	-----	-----
Dividend reinvestment plan	18	15	18
-----	-----	-----	-----
AMOUNT AT END OF YEAR	43,128	42,819	42,415
-----	-----	-----	-----
ADDITIONAL CONTRIBUTED CAPITAL IN EXCESS OF PAR VALUE OF COMMON STOCK			
Amount at beginning of year	52,153	40,312	35,576
-----	-----	-----	-----
Additions from stock purchase and option plans	8,779	10,477	4,178
-----	-----	-----	-----
Tax benefit from certain stock options and other items	264	804	-
-----	-----	-----	-----
Dividend reinvestment plan	631	560	558
-----	-----	-----	-----
AMOUNT AT END OF YEAR	61,827	52,153	40,312
-----	-----	-----	-----
RETAINED EARNINGS			
Amount at beginning of year	632,022	592,152	571,895
-----	-----	-----	-----
Net earnings for the year	98,314	85,812	65,975
-----	-----	-----	-----
Dividends paid in cash - \$1.08 per common share in 1994, 1993 and 1992	(46,197)	(45,942)	(45,718)
-----	-----	-----	-----
AMOUNT AT END OF YEAR	684,139	632,022	592,152
-----	-----	-----	-----
FOREIGN CURRENCY TRANSLATION ADJUSTMENT			
Amount at beginning of year	(16,019)	(10,214)	3,037
-----	-----	-----	-----
Net currency translation adjustment for the year	2,635	(5,805)	(13,251)
-----	-----	-----	-----
AMOUNT AT END OF YEAR	(13,384)	(16,019)	(10,214)
-----	-----	-----	-----
TREASURY STOCK (250,000 SHARES) AT COST	(9,312)	(9,312)	-
-----	-----	-----	-----
TOTAL SHAREHOLDERS' EQUITY	\$766,398	\$701,663	\$664,665
-----	-----	-----	-----

The accompanying notes are an integral part of these statements.

25

#### CONSOLIDATED STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS) FOR FISCAL YEARS	1994	1993	1992
-----	-----	-----	-----

OPERATING ACTIVITIES			
Net earnings	\$98,314	\$85,812	\$65,975
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	26,893	29,006	25,484
Amortization	2,739	3,125	3,973
Deferred income tax provision	(1,103)	(7,993)	(6,005)
Gain on sale of assets	(2,938)	(569)	(250)
Changes in operating assets and liabilities:			
Increase in receivables	(27,256)	(36,869)	(5,458)
(Increase) decrease in inventories	32,331	(35,017)	5,928
Increase in prepaid expenses	(15,470)	(10,938)	(4,829)
Increase (decrease) in accounts payable	(1,453)	11,915	(8,202)
Increase (decrease) in accruals, deposits and other long-term liabilities	(4,882)	(9,057)	23,330
NET CASH PROVIDED BY OPERATING ACTIVITIES	107,175	29,415	99,946
INVESTING ACTIVITIES			
Capital expenditures	(41,788)	(33,248)	(21,081)
Acquisitions of businesses	(23,332)	(14,657)	(110,719)
Disposition of business	26,611	-	-
Disposal of property and equipment	10,017	11,261	3,379
Increase in other noncurrent assets	(3,219)	(10,163)	(3,609)
NET CASH USED IN INVESTING ACTIVITIES	(31,711)	(46,807)	(132,030)
FINANCING ACTIVITIES			
Payment of long-term debt	(807)	(752)	(8,332)
Increase in long-term debt	427	9,428	78,650
Increase (decrease) in notes payable and short-term borrowings	(35,826)	354	52,503
Purchase of treasury stock	-	(9,312)	-
Proceeds from stock purchase and option plans	9,983	12,245	4,940
Cash dividends paid	(46,197)	(45,942)	(45,718)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(72,420)	(33,979)	82,043
EFFECT OF EXCHANGE RATE CHANGES	(758)	(873)	(1,916)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,286	(52,244)	48,043
Cash and cash equivalents at beginning of year	6,729	58,973	10,930
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 9,015	\$ 6,729	\$58,973

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FISCAL YEARS 1994, 1993 AND 1992

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

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

A. PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which are wholly-owned. Significant intercompany accounts and transactions have been eliminated.

B. ACCOUNTING PERIOD: The Corporation's accounting period ends on the Saturday nearest December 31. The 1994, 1993 and 1992 fiscal years ended on December 31, 1994, January 1, 1994 and January 2, 1993.

C. CASH EQUIVALENTS: The Corporation considers all highly liquid investments

with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

D. ACCOUNTS RECEIVABLE: Accounts receivable includes installment receivable amounts which are due subsequent to one year from balance sheet dates. These amounts were approximately \$28.2 million and \$27.9 million at the end of 1994 and 1993.

Gross installment receivables amounted to \$488.0 million and \$456.3 million at the end of 1994 and 1993. Of these amounts, \$92.5 million and \$89.4 million represented unearned finance charges at the end of 1994 and 1993.

The Corporation has an agreement with a financial institution to sell, on an ongoing basis and with full recourse, up to \$25.0 million of dealer start-up loan receivables. During 1994, \$19.2 million of these receivables were sold to the institution, of which \$18.0 million remained outstanding at December 31, 1994.

E. INVENTORIES: Inventories are stated at the lower of cost or market. Cost elements include the cost of raw materials, direct labor, and overhead incurred in the manufacturing process. For detailed inventory information, refer to Note 3.

F. PROPERTY AND EQUIPMENT: Land, buildings, and machinery and equipment are carried at cost. Depreciation and amortization are provided for primarily using the straight-line depreciation method.

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

-----		
BUILDINGS AND IMPROVEMENTS	15 to 45 years	
-----		
MACHINERY AND EQUIPMENT	3 to 15 years	
-----		
TRANSPORTATION VEHICLES	2 to 5 years	
-----		

The costs and related accumulated depreciation of the Corporation's property and equipment values were as follows for fiscal years ended:

(AMOUNTS IN THOUSANDS)	1994	1993
-----		
LAND	\$ 18,394	\$ 27,209
-----		
BUILDINGS AND IMPROVEMENTS	134,038	142,438
-----		
MACHINERY AND EQUIPMENT	301,175	282,222
-----		
	453,607	451,869
-----		
ACCUMULATED DEPRECIATION	(244,465)	(227,059)
-----		
PROPERTY AND EQUIPMENT - NET	\$209,142	\$224,810
-----		

G. INTANGIBLES: The excess of the purchase cost over the fair value of net assets acquired in an acquisition (goodwill) is included in Intangible and Other Assets in the accompanying consolidated balance sheets and is being amortized principally over 20 years on a straight-line basis. The Corporation continually evaluates the existence of goodwill impairment on the basis of whether the goodwill is fully recoverable from projected, undiscounted net cash flows of the related business unit. Goodwill (net of accumulated amortization) was \$52.5 million and \$48.1 million at the end of 1994 and 1993. Amortization of goodwill amounted to \$3.2 million, \$2.8 million and \$2.4 million for 1994, 1993 and 1992. Accumulated amortization of goodwill was \$9.4 million and \$6.2 million at the end of years 1994 and 1993.

H. RESEARCH AND ENGINEERING: Research and engineering costs are charged to expense in the year incurred. For 1994, 1993 and 1992, these costs were \$30.6 million, \$27.7 million and \$21.1 million.

I. INCOME TAXES: Deferred income taxes are provided for temporary differences arising from differences in bases of assets and liabilities for tax and financial reporting purposes. For detailed tax information, refer to Note 6.

J. FOREIGN CURRENCY TRANSLATION: The financial statements of the Corporation's foreign subsidiaries are translated into U.S.

27

#### NOTE 1 SUMMARY OF ACCOUNTING POLICIES

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

K. FRANCHISE FEE REVENUE: Franchise fee revenue is recognized as the fees are earned. Revenue from franchise fees was not material in any year.

L. NET FINANCE INCOME: Net finance income is comprised of installment contract and lease income net of related expenses.

M. RECLASSIFIED PRIOR-YEAR AMOUNTS: Certain prior-year amounts have been reclassified to conform with current-year presentation.

#### NOTE 2 ACQUISITIONS AND DIVESTITURE

##### ACQUISITIONS

During 1994, 1993 and 1992, the Corporation acquired the entities described below, which were accounted for by the purchase method of accounting. The results of operations of the acquired companies are included in the accompanying consolidated financial statements from their respective dates of acquisition.

On October 2, 1992, the Corporation acquired Sun Electric Corporation. Sun is primarily engaged in the design, manufacture, marketing and service of diagnostic, test and service equipment, together with information and management systems, for the motor vehicle service industry and for motor vehicle manufacturers. The total purchase price of approximately \$115 million was financed with available cash of approximately \$40 million and the issuance of debt of approximately \$75 million. The cost of the acquisition has been allocated on the basis of the estimated fair market value of the assets acquired and the liabilities assumed. This allocation resulted in goodwill of

approximately \$30 million, which is being amortized over 20 years.

On September 29, 1993, the Corporation acquired the assets of J. H. Williams Industrial Products, Inc. and formed a new company named J. H. Williams Company. Williams is a full-line tool manufacturer for wholesale industrial customers. On September 14, 1994, the Corporation acquired the assets and assumed certain liabilities of Wheel Tronic, a division of Derlan Manufacturing, Inc., and formed a new company named Wheeltronic Ltd. Wheeltronic manufactures high quality, above-ground lifts for the automotive repair market. On November 10, 1994, the Corporation acquired Sioux Tools, Inc., a leading maker of portable electric and pneumatic tools primarily for the industrial market. Pro forma results of operations are not shown, as the effect of these acquisitions is not material.

#### DIVESTITURE

Systems Control, Inc., acquired as part of the Sun purchase in 1992, was sold on September 29, 1994. The gain recognized on this divestiture was not material. The sale of this business will not significantly impact ongoing results of operations.

#### NOTE 3 INVENTORIES

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

(AMOUNTS IN THOUSANDS)	1994	1993
FINISHED STOCK	\$266,792	\$280,512
WORK IN PROCESS	26,316	30,534
RAW MATERIALS	43,907	52,052
EXCESS OF CURRENT COST OVER LIFO COST	(107,978)	(113,996)
TOTAL INVENTORY	\$229,037	\$249,102

Inventories accounted for using the last-in, first-out (LIFO) cost method approximated 48% of total inventory as of year-end 1994 and 58% as of year-end 1993. Inventories for Sun were \$65.6 million as of year-end 1994 and \$65.9 million as of year-end 1993, and are accounted for on the first-in, first-out (FIFO) cost method.

During 1994 and 1992, the Corporation liquidated inventories that were carried at lower costs prevailing in prior years. The effect of these liquidations was to increase income before taxes by \$4.9 million and \$6.1 million in 1994 and 1992.

#### NOTE 4 LITIGATION

The Corporation has been involved in a number of dealer claims in the ordinary course of its business for a number of years, with respect to both its United States and foreign operations. Dealer claims in foreign jurisdictions in the aggregate are not material. The discussion in this note is limited to U.S. claims. Also excluded from this note are confidential matters pending in the

Corporation's Ombudsman Program, which are not significant. Since the Corporation maintains a worldwide network of approximately 4,800 dealers, some dealer disputes and resulting claims are to be expected.

At January 31, 1995, the Corporation was a party to a number of pending legal proceedings in which approximately 26 dealers (most of whom are former dealers) and, in some cases, their spouses have asserted claims against the Corporation. These proceedings are now pending before courts and arbitration panels at various stages in a number of states, including some in appellate courts. In addition, at January 31, 1995, approximately 81 current or former dealers have threatened to assert claims against the Corporation. This compares with approximately 70 pending and approximately 72 threatened dealer claims at January 31, 1994. In most instances, these claims include allegations that the Corporation made misrepresentations, violated statutes or contract rights, and caused distress. The Corporation generally denies liability and intends to vigorously defend itself against these claims, but considers settlements where appropriate. The Corporation is also involved in litigation against certain of its insurance carriers as to coverage in connection with various dealer claims.

During 1994, nine former and two current dealers asserted claims and 60 dealers (almost all of whom are former dealers) threatened to assert claims against the Corporation. This compares with 26 asserted claims and approximately 139 threatened claims in 1993. Approximately 76% of the aggregate claims asserted during 1994 were by dealers who are parties to arbitration agreements with the Corporation, as compared with approximately 64% during 1993. In the Corporation's experience, the expenditures in arbitration claims are less than those in court cases. Based on current information, the Corporation presently intends to assert as a defense to certain of the claims made during 1994 that such claims are time-barred under applicable statutory or contractual limitation periods.

Since 1991, through legal counsel, the services of a nationally recognized actuarial firm were engaged to assist in an evaluation of the reserves established for dealer claims. Based in part on the advice from such counsel and actuarial firm, the Corporation believes that it has established reasonable reserves and the Corporation does not expect the costs, losses, and settlements of these claims to exceed probable insurance recoveries together with the reserves established.

During the three fiscal years 1994, 1993 and 1992, the Corporation charged earnings a total of approximately \$7.9 million, \$17.8 million and \$28.9 million, for settlement costs, including the establishment of related reserves, legal fees, and expenses with respect to dealer claims. Although it is not possible to predict the outcome of the existing dealer claims with any certainty, it is management's opinion, based in part on advice from its legal counsel and its actuarial consultant, that the costs, losses, and settlement of these claims are not expected to have a material adverse effect on the Corporation's financial condition and results of operations.

#### NOTE 5 SHORT-TERM AND LONG-TERM DEBT

At December 31, 1994, the Corporation had committed bank lines of credit totaling \$50.0 million for short-term borrowing, including support for commercial paper issuance. As of year-end, the entire \$50.0 million was available to the Corporation. Notes payable to banks from non-committed bank lines of credit totaled \$10.6 million as of December 31, 1994 and \$1.0 million as of January 1, 1994.

Commercial notes payable totaled \$95.5 million as of December 31, 1994 and \$140.3 million as of January 1, 1994. The \$95.5 million of commercial paper outstanding at year-end is classified as long-term debt since it is the Corporation's intent and it has the ability (supported by a \$100.0 million revolving credit facility as described below) to refinance the debt on a long-term basis.

Maximum short-term borrowings outstanding at the end of any month in 1994 and 1993 were \$73.4 million and \$69.3 million. The average outstanding borrowings were \$52.6 million in 1994 and \$40.9 million in 1993. The weighted average

interest rates for 1994 and 1993 were 4.5% and 5.1%. The weighted average interest rate on outstanding borrowings at December 31, 1994 was 7.5%.

NOTES TO CONSOLIDATE FINANCIAL STATEMENTS (countinued)  
FISCAL YEARS 1994,1993, AND 1992

The Corporation's long-term debt consisted of the following for fiscal years ended:

(AMOUNTS IN THOUSANDS)	1994	1993
-----		
BORROWINGS UNDER OR SUPPORTED BY		
A REVOLVING CREDIT COMMITMENT	\$ 95,500	\$ 75,000
-----		
OTHER LONG-TERM DEBT	13,795	26,735
-----		
	109,295	101,735
-----		
CURRENT MATURITIES	(315)	(2,052)
-----		
TOTAL LONG-TERM DEBT	\$108,980	\$ 99,683
-----		

In December 1994, the Corporation entered into a \$100 million revolving credit commitment. Under the terms of the commitment, borrowings can be made at the then current London Interbank Offered Rate (LIBOR) plus .14% and may be fixed for periods ranging from one to twelve months under reborrowing provisions of the commitment. This commitment terminates on January 2, 2000. At December 31, 1994, the \$95.5 million of commercial paper outstanding that was classified as long-term and supported by this credit commitment had an average interest rate of 6.1%.

The Corporation must maintain a specific level of consolidated tangible net worth, meet certain leverage and interest coverage ratios, and certain capital transactions are restricted. At year-end 1994, the Corporation was in compliance with all covenants of the commitment.

The annual maturities of the Corporation's long-term debt due in the next five years are \$.3 million in 1995, \$.3 million in 1996, \$7.6 million in 1997, \$.2 million in 1998 and \$.2 million in 1999.

On September 23, 1994, the Corporation filed a registration statement with the Securities and Exchange Commission, effective November 13, 1994, which allows the Corporation to offer for sale from time to time up to \$300 million of unsecured indebtedness. As of December 31, 1994, the Corporation has not incurred indebtedness under this filing.

Interest payments on debt and on other interest bearing obligations approximated \$11.6 million, \$11.9 million and \$5.5 million for 1994, 1993 and 1992.

NOTE 6 INCOME TAXES

Effective at the beginning of 1992, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." Under this statement, deferred income taxes are recorded on temporary differences at the tax rate expected to be in effect when the temporary



differences reverse. The adoption of this statement did not have a material effect on the 1992 consolidated results of operations or financial condition of the Corporation.

The provision for income taxes consists of the following:

(AMOUNTS IN THOUSANDS)	1994	1993	1992
<b>CURRENT:</b>			
Federal	\$36,279	\$33,452	\$25,998
Foreign	14,091	17,741	14,473
State	6,088	7,479	9,134
Total current	56,458	58,672	49,605
<b>DEFERRED:</b>			
Federal	(684)	(6,568)	(4,238)
Foreign	(517)	(919)	(1,259)
State	98	(506)	(508)
TOTAL DEFERRED	(1,103)	(7,993)	(6,005)
TOTAL INCOME TAX PROVISION	\$55,355	\$50,679	\$43,600

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

	1994	1993	1992
STATUTORY FEDERAL INCOME TAX RATE	35.0%	35.0%	34.0%
<b>INCREASE (DECREASE) IN TAX RATE RESULTING FROM:</b>			
State income taxes, net of federal benefit	2.7	3.2	4.8
Foreign sales corporation tax benefit	(1.9)	(1.9)	(2.3)
Foreign losses without tax benefit	0.2	0.9	2.1
Adjustment for rate change on deferred taxes	-	(1.6)	-
Other	-	1.5	1.2
EFFECTIVE TAX RATE	36.0%	37.1%	39.8%

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

(AMOUNTS IN THOUSANDS)	1994	1993	1992
-----			
CURRENT DEFERRED INCOME			
TAX BENEFIT:			
Inventories	\$15,007	\$ 9,946	\$ 4,092
-----			
Accruals and reserves not currently deductible	19,217	21,846	22,021
-----			
Other	302	(201)	1,927
-----			
TOTAL CURRENT (INCLUDED IN PREPAID EXPENSES)	34,526	31,591	28,040
-----			
LONG-TERM DEFERRED			
INCOME TAX BENEFIT:			
Employee benefits	44,215	41,922	38,205
-----			
Net operating losses	30,124	29,650	33,505
-----			
Depreciation	(17,239)	(15,477)	(18,156)
-----			
Other	3,200	(150)	2,568
-----			
Valuation Allowance	(9,869)	(9,539)	(11,797)
-----			
TOTAL LONG-TERM	50,431	46,406	44,325
-----			
NET DEFERRED INCOME			
TAX BENEFIT	\$84,957	\$77,997	\$72,365
-----			

The valuation allowance required under SFAS No. 109 has been established for deferred income tax benefits related to certain subsidiary loss carryforwards which may not be realized. Included in the valuation allowance is \$4.5 million which relates to the deferred tax assets recorded in the acquisition of Sun. Any tax benefits subsequently recognized for these deferred tax assets will be allocated to goodwill.

The Corporation has U.S. tax net operating loss carryforwards (NOLs) acquired in the Sun acquisition totaling \$68.0 million which expire as follows: 1998-\$15.7 million, 2000-\$11.3 million, 2001-\$13.4 million, 2002-\$1.3 million, 2004-\$14.0 million, 2006-\$11.9 million and 2007-\$0.4 million. The Corporation also has foreign tax NOLs of \$18.3 million resulting from operations primarily in Australia, Brazil, Canada and the Netherlands. These losses expire as follows: 1997-\$1.5 million, 1998-\$0.1 million, 1999-\$0.2 million, 2000-\$0.2 million and 2001-\$0.3 million. The remaining foreign tax net operating losses may be carried forward indefinitely.

The undistributed earnings of all subsidiaries were approximately \$66.6 million, \$66.9 million and \$64.1 million for 1994, 1993 and 1992. The Corporation does not expect that additional income taxes will be incurred on future distributions of such earnings, and accordingly, no deferred income taxes have been provided

for the distribution of these earnings to the parent company.

The Corporation made income tax payments of \$65.9 million, \$73.6 million and \$49.8 million in 1994, 1993 and 1992.

#### NOTE 7 FINANCIAL INSTRUMENTS

**FOREIGN EXCHANGE CONTRACTS:** The Corporation enters into foreign currency contracts to manage its exposure to foreign currency fluctuations in intercompany payables denominated in foreign currencies. Gains and losses on these contracts are recognized currently and were not material. These forward exchange contract transactions generally mature monthly at which time they are replaced with new contracts. At December 31, 1994, the Corporation had forward exchange contracts to exchange British pounds, Netherlands guilden and German marks for U.S. dollar equivalents of approximately \$10.4 million. These forward exchange contract transactions matured in January 1995. The amount of foreign exchange contracts outstanding throughout 1994 ranged from \$10.4 million to \$19.9 million in U.S. dollar equivalents.

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

In December 1994, the Corporation sold \$50 million of a five-year interest rate swap agreement entered into in November 1992. Additionally during 1994, the Corporation entered into ten-year interest rate swap agreements totalling \$20 million involving the exchange of floating interest rate payment obligations for fixed rate payment obligations without the exchange of the underlying principal amounts. At December 31, 1994 and January 1, 1994, the notional principal amount totalled \$44.5 million and \$75.0 million. The counterparty to these agreements is a United States branch of a major foreign bank.

**CREDIT CONCENTRATIONS:** The Corporation is exposed to credit losses in the event of non-performance by the counterparties to its interest rate swap and foreign exchange contracts. The Corporation does not anticipate non-performance by the counterparties. The Corporation does not obtain collateral or

other security to support financial instruments subject to credit risk but enters into agreements only with high quality financial institutions.

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

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

**INSTALLMENT CONTRACTS:** A discounted cash flow analysis was performed over the average life of a contract using a discount rate currently available to the Corporation adjusted for credit quality, cost and profit factors. As of December 31, 1994, the fair value was approximately \$450.0 million versus a book value of \$395.5 million. As of January 1, 1994, the fair value was approximately \$425.0 million versus a book value of \$367.0 million.

INTEREST RATE SWAP AGREEMENT(S): The fair value of the agreement(s) was based on a quote from the financial institution with which the Corporation executed the transaction(s). As of December 31, 1994, the Corporation would have realized a gain of \$1.0 million upon termination of the agreement(s). As of year-end 1993, the cost to terminate the agreement(s) would have been \$3.5 million.

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

NOTE 8 PENSION PLANS

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

The Corporation has several foreign subsidiary pension plans which do not report pension expense in accordance with SFAS No. 87, as these plans and their related pension expense are not material.

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

(AMOUNTS IN THOUSANDS)	1994	1993	1992
SERVICE COST-BENEFITS			
EARNED DURING YEAR	\$12,146	\$9,331	\$8,516
INTEREST COST ON			
PROJECTED BENEFITS	22,112	20,012	17,339
LESS ACTUAL RETURN ON			
PLAN ASSETS	(1,949)	(31,069)	(19,790)
NET AMORTIZATION AND DEFERRAL:			
Actual return on assets in excess of (less than) projected return	(20,226)	9,950	1,160
Amortization of net assets at transition	(1,082)	(1,092)	(1,102)
OTHER	591	458	9
NET PENSION EXPENSE	\$11,592	\$7,590	\$6,132

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

(AMOUNTS IN THOUSANDS)	1994		1993	
	ASSETS EXCEED ACCUMULATED BENEFITS	ACCUMULATED BENEFITS EXCEED ASSETS	ASSETS EXCEED ACCUMULATED BENEFITS	ACCUMULATED BENEFITS EXCEED ASSETS
ACTUARIAL PRESENT VALUE OF ACCUMULATED BENEFITS:				
Vested benefits	\$173,250	\$22,450	\$149,232	\$ 57,775
Non-vested benefits	29,212	1,654	26,244	7,014
ACCUMULATED BENEFIT OBLIGATION	202,462	24,104	175,476	64,789
EFFECT OF PROJECTED FUTURE SALARY INCREASES	38,393	3,574	45,430	4,516
PROJECTED BENEFIT OBLIGATION	240,855	27,678	220,906	69,305
PLAN ASSETS AT MARKET VALUE	254,517	18,725	227,892	55,888
PLAN ASSETS IN EXCESS OF (LESS THAN) PROJECTED BENEFIT OBLIGATION	13,662	(8,953)	6,986	(13,417)
UNRECOGNIZED NET ASSETS AT YEAR-END	(9,248)	(2,680)	(7,960)	(836)
UNRECOGNIZED NET (GAIN) OR LOSS FROM EXPERIENCE DIFFERENT THAN ASSUMED	(47,239)	1,583	(31,232)	2,887
UNRECOGNIZED PRIOR SERVICE COST	8,957	724	6,175	4,101
ADDITIONAL MINIMUM LIABILITY	0	(1,066)	0	(3,176)
PENSION LIABILITY	\$ (33,868)	\$ (10,392)	\$ (26,031)	\$ (10,441)

The actuarial present value of the projected benefit obligation was determined using a discount rate of 8.5% for 1994, 7.25% for 1993 and 9.0% for 1992. The projected future salary increase assumption was 5.0% for 1994 and 1993 and 6.0% for 1992. The expected long-term rate of return on plan assets was 9.0% for the three years reported.

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

The pension liability for 1994 is comprised of a current liability of \$5.7 million and a long-term liability of \$38.6 million. The long-term liability represents pension obligations which are not expected to be funded during the next 12 months.

#### NOTE 9 RETIREE HEALTH CARE

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

For employees retiring under the comprehensive major medical plans, there are contributions required under certain circumstances, and these plans contain provisions allowing for benefit and coverage changes. The plans include provisions for retirees to contribute amounts estimated to exceed a capped per retiree annual cost commitment by the Corporation. The Corporation does not fund the retiree health care plans.

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

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

(AMOUNTS IN THOUSANDS)	1994	1993	1992
-----			
NET PERIODIC COST			
SERVICE COST - BENEFITS			
ATTRIBUTED TO SERVICE			
DURING THE PERIOD	\$2,139	\$1,613	\$1,570
-----			
INTEREST COST ON ACCUMULATED			
POSTRETIREMENT BENEFIT			
OBLIGATION	5,081	4,888	5,882
-----			
AMORTIZATION OF			
UNRECOGNIZED NET GAIN	-	(331)	-
-----			
NET POSTRETIREMENT HEALTH			
CARE EXPENSE	\$7,220	\$6,170	\$7,452
-----			

33

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

(AMOUNTS IN THOUSANDS)	1994	1993
-----		
ACCUMULATED POSTRETIREMENT		
BENEFIT OBLIGATION		
Retirees	\$37,030	\$37,375
-----		
Fully eligible active plan participants	9,281	9,746
-----		
Other active plan participants	20,938	23,890
-----		
ACCUMULATED POSTRETIREMENT		
BENEFIT OBLIGATION	67,249	71,011
-----		
UNRECOGNIZED NET GAIN	12,847	3,280
-----		
POSTRETIREMENT LIABILITY	\$80,096	\$74,291
-----		

The accumulated postretirement benefit obligation at the end of 1994 is comprised of a current liability of \$3.3 million and a long-term liability of \$76.8 million. The weighted average discount rate used in determining the accumulated postretirement benefit obligation as of year-end 1994 and 1993 was 8.5% and 7.25%.

The actuarial calculation assumes a health care trend rate of 10.6% in 1995 for benefits paid on pre-Medicare retirees decreasing gradually to 5.0% in the year 2003 and thereafter. For benefits paid on Medicare eligible retirees, a health care trend rate of 8.9% was assumed in 1995 decreasing to 5.0% in the year 2007

and thereafter.

As of December 31, 1994, a one percentage point increase in the health care cost trend rate for future years would increase the accumulated postretirement benefit obligation by \$2.0 million and the service cost and interest cost component by \$.1 million.

NOTE 10 CORPORATION STOCK OPTION AND PURCHASE PLANS

The Corporation has a stock option plan for directors, officers and key employees with expiration dates on the options ranging from 1996 to 2004. The plan provides that options be granted at exercise prices equal to market value on the date the option is granted.

	NUMBER OF SHARES	OPTION PRICE PER SHARE
-----		
OPTIONS OUTSTANDING AT DECEMBER 28, 1991	1,890,032	\$20.56 - 38.13
-----		
Granted	150,025	33.75 - 34.75
-----		
Exercised	(151,116)	20.56 - 35.50
-----		
Surrendered	(54,934)	20.56 - 38.13
-----		
OPTIONS OUTSTANDING AT JANUARY 2, 1993	1,834,007	20.56 - 38.13
-----		
Granted	532,619	31.75 - 35.00
-----		
Exercised	(361,057)	20.56 - 35.50
-----		
Surrendered	(106,905)	20.56 - 35.50
-----		
OPTIONS OUTSTANDING AT JANUARY 1, 1994	1,898,664	20.56 - 38.13
-----		
Granted	40,500	36.75 - 37.25
-----		
Exercised	(203,445)	20.56 - 35.00
-----		
Surrendered	(182,502)	20.56 - 31.75
-----		
OPTIONS OUTSTANDING AT DECEMBER 31, 1994	1,553,217	\$20.56 - 38.73
-----		
SHARES RESERVED FOR FUTURE GRANTS	1,738,093	
-----		
SHARES EXERCISABLE AT DECEMBER 31, 1994	1,498,004	
-----		

The Corporation offers shareholders a convenient way to increase their investment in the Corporation through a no-commission dividend reinvestment and stock purchase plan. Participating shareholders may invest the cash dividends from all or a portion of their common stock to buy additional shares. The program also permits shareholders to invest cash for additional shares that are purchased for them each month. For 1994, 1993 and 1992, shares issued under the dividend reinvestment and stock purchase plan totaled 17,991, 15,485 and 17,587. At December 31, 1994, 933,501 shares were reserved for issuance to shareholders

under this plan.

Employees of the Corporation are entitled to participate in an employee stock purchase plan and are entitled to purchase shares up to the maximum allowed by the Internal Revenue Code. The purchase price of the common stock is the lesser of the closing market price of the stock on the beginning date (May 15th) or ending date (May 14th) of each plan year. The Board of Directors may terminate this plan at any time. For 1994, 1993 and 1992, shares issued under the employee stock purchase plan totaled 43,205, 44,563 and 66,554. At December 31, 1994, shares totaling 94,282 were reserved for issuance to employees under this plan and the Corporation held contributions of approximately \$1.3 million for the purchase of common stock.

Franchised dealers are entitled to participate in a dealer stock purchase plan. The purchase price of the common stock is the lesser of the closing market price of the stock on the beginning date (May 15th) or ending date (May 14th) of each plan year. For 1994, 1993 and 1992, shares issued under the dealer stock purchase plan totaled 50,126, 4,683 and 348. At December 31, 1994, 144,843 shares were reserved for issuance to franchised dealers under this plan and the Corporation held contributions of approximately \$1.5 million for the purchase of common stock.

In 1993, shareholders approved the Directors' 1993 Fee Plan. Under this plan, non-employee Directors receive a mandatory minimum of 25% and an elective maximum of up to 100% of their fees and retainer in shares of Corporation stock. Directors may elect to defer receipt of all or part of these shares. For 1994 and 1993, shares issued under the Directors' Fee Plan totaled 1,545 and 184. Additionally, receipt of 602 and 1,004 shares were deferred in 1994 and 1993. At December 31, 1994, 196,665 shares were reserved for issuance to directors under this plan.

#### NOTE 11 CAPITAL STOCK

The Board of Directors declared on October 23, 1987, and amended on May 22, 1992 and January 28, 1994, a dividend distribution of one preferred stock purchase right for each share of the Corporation's outstanding common stock. The rights are exercisable only if a person or group acquires or publicly announces a tender offer for 15% or more of the Corporation's common stock ("Acquiring Person"). Each right may then be exercised to purchase one one-hundredth of a share of Series A Junior Preferred Stock for \$125. Investors who acquire more than 15% and less than 25% of the Corporation's stock without the intent or purpose to change or influence the control of the Corporation are exempt from the definition of "Acquiring Person." If the Corporation is acquired in a merger or other business combination not approved by the Board of Directors, each holder of a right, other than those held by the acquiring person or group, will be entitled to purchase one share of common stock of the surviving company having a market value equivalent to two times the current purchase price, thereby causing ownership dilution to a person or group attempting to acquire the Corporation without approval of the Corporation's Board of Directors. The rights expire on November 3, 1997, and may be redeemed by the Corporation at a price of \$.05 per right at any time prior to 10 days after a person or group acquires 15% or more of the Corporation's common stock. The rights of redemption may be reinstated in connection with the consummation of a merger or other business combination which has been approved by 67% of the outstanding shares not held by 15% shareholders and their affiliates.

In January 1995, the Board of Directors approved and the Corporation subsequently announced a common stock share repurchase program of up to \$100 million to be executed from time to time through open market purchases and by block purchases.



NOTE 12 COMMITMENTS AND CONTINGENCIES

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

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

Year Ending	(Amounts in Thousands)
1995	\$11,514
1996	7,018
1997	5,126
1998	4,574
1999	3,136
2000-2017	11,376

Rent expenses for worldwide facilities and computer equipment were \$11.8 million in 1994, \$10.1 million in 1993 and \$8.5 million in 1992.

As a result of the Sun acquisition, the Corporation assumed certain third-party leasing obligations. Prior to the 1990 expiration of an operating agreement between Sun and a third-party leasing corporation, certain lease sales were placed with a third party with recourse. This leasing corporation provided customer financing on sales of Sun products in the United States. Under terms of an associated remarketing agreement with the third party, Sun continues to be required, under certain conditions, to repurchase equipment on defaulted leases at predetermined prices. Sun's maximum contingent liability under the remarketing agreement (assuming 100% default by customers on all existing leases) was \$4.6 million as of December 31, 1994. It is expected that any losses actually incurred due to default would be partially offset by the repossession and resale of the leased equipment.

Prior to Sun's disposition of Systems Control, Inc. on September 29, 1994, the Corporation guaranteed the performance of Systems Control's single-purpose subsidiaries, Tejas Testing

Technology One, L.C. and Tejas Testing Technology Two, L.C. (the "Tejas Companies"), under two seven-year contracts to perform automotive emissions-testing in the Dallas/Fort Worth and Southeast regions of Texas. To finance the Tejas Companies' performance under the emissions contracts, the Corporation guaranteed payment of the Tejas Companies' \$98.8 million obligations under an Agreement for Lease and Lease Agreement, each dated June 22, 1994 (the "Lease Obligations"), pursuant to which the Tejas Companies acquired the equipment and facilities necessary to perform the emission contracts. The value of such equipment and facilities and the value of any continuing operations will accrue to the Corporation in the event the Corporation is required to satisfy the Lease Obligations. The guarantee of payment will terminate at such time as the Tejas Companies meet certain financial ratios for 6 consecutive months. Pursuant to a Capital Subscription Agreement dated June 22, 1994, the Corporation is also obligated, for the

duration of the emission-testing contracts, to make a subordinated loan to the Tejas Companies sufficient in amount to enable the Tejas Companies to satisfy the Lease Obligations in the event the emissions-testing program is terminated as a result of a court order or by repeal of the implementing legislation, or where the program is terminated as a result of a performance default by the Tejas Companies and the Texas Natural Resources Conservation Commission exercises its option to purchase the equipment and facilities at a price that is insufficient to satisfy the Lease Obligations. The emission-testing program was suspended for 90 days by the Texas Legislature on February 1, 1995. The program is presently scheduled to resume on May 2, 1995.

Based upon conditions as they presently exist, it is management's opinion that the guarantees and Capital Subscription Agreement referred to above are not likely to have a material adverse effect, if any, on the Corporation's financial condition or results of operations.

NOTE 13 REPORTING SEGMENTS

The Corporation operates predominantly in a single industry as a manufacturer and distributor of tools and other products for the professional mechanic. The Corporation is a multinational corporation with operations in many countries including the United States, Australia, Belgium, Brazil, Canada, France, Germany, Japan, Mexico, Puerto Rico, the Netherlands, New Zealand, Taiwan and the United Kingdom. Transfers between geographic areas primarily represent inter-company export sales of U.S.-produced goods and are accounted for based on established sales prices between the related companies. In computing earnings from operations for foreign subsidiaries, no allocations of general corporate expenses, interest or income taxes have been made.

Identifiable assets of European and other foreign subsidiaries are those assets related to the operations of those subsidiaries. United States assets consist of all other operating assets of the Corporation.

	United States	Europe	Other Foreign Subsidiaries	Eliminations	Consolidated
1994					
SALES TO UNAFFILIATED CUSTOMERS	\$ 862,189	\$191,648	\$140,459	\$ -	\$1,194,296
TRANSFERS BETWEEN GEOGRAPHIC AREAS	149,986	2,670	9,793	(162,449)	-
TOTAL REVENUE	1,012,175	194,318	150,252	(162,449)	1,194,296
EARNINGS FROM OPERATIONS	126,834	21,444	14,217	(4,600)	157,895
IDENTIFIABLE ASSETS	\$1,015,208	\$137,340	\$108,083	\$ (25,726)	\$1,234,905
1993					
Sales to unaffiliated customers	\$ 807,469	\$198,941	\$125,600	\$ -	\$1,132,010
Transfers between geographic areas	105,846	2,595	10,486	(118,927)	-
Total revenue	913,315	201,536	136,086	(118,927)	1,132,010
Earnings from operations	112,324	22,023	14,560	(1,974)	146,933
Identifiable assets	\$1,007,269	\$140,735	\$ 96,655	\$ (25,726)	\$1,218,933
1992					
Sales to unaffiliated customers	\$ 770,766	\$111,598	\$101,436	\$ -	\$ 983,800
Transfers between geographic areas	73,062	2,185	7,324	(82,571)	-
Total revenue	843,828	113,783	108,760	(82,571)	983,800
Earnings from operations	105,874	2,157	8,133	(489)	115,675
Identifiable assets	\$ 978,902	\$120,295	\$ 98,737	\$ (25,521)	\$1,172,413

SHAREHOLDERS OF SNAP-ON INCORPORATED:

We have audited the accompanying consolidated balance sheets of Snap-on Incorporated (a Delaware Corporation) as of December 31, 1994 and January 1, 1994, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Snap-on Incorporated as of December 31, 1994 and January 1, 1994, and the consolidated results of its operations and cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP

-----  
ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin  
January 31, 1995

QUARTERLY FINANCIAL  
INFORMATION (Unaudited)

(Amounts in thousands  
except per share data)

	1994	1993	1992
-----			
NET SALES			
1st Quarter	\$ 298,777	\$ 270,674	\$226,253
2nd Quarter	298,752	272,718	232,907
3rd Quarter	278,359	271,096	225,554
4th Quarter	318,408	317,522	299,086
	-----	-----	-----
	\$1,194,296	\$1,132,010	\$983,800
-----			
GROSS PROFIT			
1st Quarter	\$ 153,470	\$ 138,938	\$114,262
2nd Quarter	156,087	146,839	117,842
3rd Quarter	140,771	140,759	114,544
4th Quarter	158,509	169,192	162,765
	-----	-----	-----
	\$ 608,837	\$ 595,728	\$509,413
-----			

NET EARNINGS

1st Quarter	\$ 22,834	\$ 18,504	\$ 18,475
2nd Quarter	26,099	22,362	19,589
3rd Quarter	22,706	20,536	15,155
4th Quarter	26,675	24,410	12,756

\$ 98,314      \$ 85,812      \$ 65,975

EARNINGS PER COMMON SHARE

1st Quarter	\$ .54	\$ .44	\$ .44
2nd Quarter	.61	.52	.46
3rd Quarter	.53	.48	.36
4th Quarter	.62	.58	.30

\$ 2.30      \$ 2.02      \$ 1.56

ELEVEN-YEAR DATA

(Amounts in thousands except share data)      1994      1993      1992      1991      1990      1989

SUMMARY OF OPERATIONS

Net sales	\$1,194,296	\$1,132,010	\$983,800	\$881,591	\$931,533	\$890,792
Gross profit	608,837	595,728	509,413	437,685	469,149	439,861
Operating expenses	510,361	509,910	457,384	370,708	359,266	320,178
Net finance income	59,419	61,115	63,646	56,890	53,182	47,202
Interest expense	10,806	11,198	5,969	5,250	6,762	3,298
Other income (expense)-net	6,580	756	(131)	(91)	3,557	1,923
Pre-tax earnings	153,669	136,491	109,575	118,526	159,860	165,510
Income taxes	55,355	50,679	43,600	45,300	59,100	60,800
Net earnings	98,314	85,812	65,975	34,277	100,760	104,710
Net earnings before cumulative effect of accounting change**	N/A	N/A	N/A	73,226	N/A	N/A

FINANCIAL POSITION

Current assets	\$ 873,020	\$854,598	\$832,603	\$666,623	\$675,038	\$564,623
Current liabilities	237,869	308,037	317,074	176,650	236,802	179,476
Working capital	635,151	546,561	515,529	489,973	438,236	385,147
Receivables	568,378	539,949	508,092	461,596	459,381	403,926
Inventories	229,037	249,102	216,262	160,148	182,065	137,106
Property and equipment-net	209,142	224,810	226,498	206,481	210,414	195,020
Total assets	1,234,905	1,218,933	1,172,413	915,374	907,854	777,603
Long-term debt	108,980	99,683	93,106	7,179	7,275	7,700
Shareholders' equity	766,398	701,663	664,665	652,719	636,403	572,657

COMMON SHARE SUMMARY\*

Shareholders' equity per share	\$17.87	\$16.48	\$15.67	\$15.46	\$15.42	\$13.93
Net earnings per share	2.30	2.02	1.56	.82	2.45	2.55
Net earnings per share before cumulative effect of accounting change**	N/A	N/A	N/A	1.75	N/A	N/A
Cash dividends paid per share	1.08	1.08	1.08	1.08	1.08	1.04
Average shares outstanding	42,791,916	42,570,783	42,343,781	41,821,768	41,207,563	41,038,978

OTHER FINANCIAL STATISTICS

Cash dividends paid	\$ 46,197	\$ 45,942	\$ 45,718	\$ 45,086	\$ 44,505	\$ 42,655
% dividends paid to net earnings	47.0%	53.5%	69.3%	61.6%**	44.2%	40.7%
Capital expenditures	41,788	33,248	21,081	23,447	44,353	72,136
Depreciation and amortization	29,632	32,131	29,457	25,619	25,914	21,865
Current ratio	3.7	2.8	2.6	3.8	2.9	3.1
Total debt to total capital	13.5%	19.3%	19.5%	1.2%	11.7%	7.3%
Effective tax rate	36.0%	37.1%	39.8%	38.2%	37.0%	36.7%
Pre-tax earnings as % of net sales	12.9%	12.1%	11.1%	13.4%	17.2%	18.6%
Net earnings as % of net sales	8.2%	7.6%	6.7%	8.3%**	10.8%	11.8%
After-tax return on average shareholders' equity	13.4%	12.6%	10.0%	11.4%**	16.7%	19.4%
Common stock price range*	44 3/8-29	44 1/2-30 1/2	40-27	34 1/2-27 3/8	38-26 1/4	41 7/8-28 7/8

(Amounts in thousands except share data)      1988      1987      1986      1985      1984

SUMMARY OF OPERATIONS

Net sales	\$854,592	\$754,303	\$670,086	\$591,278	\$539,933
Gross profit	431,748	377,167	331,950	298,056	283,216
Operating expenses	287,712	252,115	230,489	205,984	183,741
Net finance income	37,991	30,508	25,443	19,748	14,573
Interest expense	2,637	2,788	2,672	2,703	2,747
Other income (expense)-net	3,432	3,024	2,264	2,715	3,428
Pre-tax earnings	182,822	155,796	126,496	111,832	114,729
Income taxes	69,500	67,200	61,000	52,100	55,100

Net earnings	113,322	88,596	65,496	59,732	59,629
Net earnings before cumulative effect of accounting change**	N/A	N/A	N/A	N/A	N/A
-----					
FINANCIAL POSITION					
Current assets	\$504,980	\$470,516	\$392,172	\$360,813	\$331,298
Current liabilities	142,337	131,420	112,303	92,506	89,558
Working capital	362,643	339,096	279,869	268,307	241,740
Receivables	336,588	277,357	226,551	197,689	164,901
Inventories	139,460	120,083	124,845	113,061	112,664
Property and equipment-net	146,371	128,082	115,144	98,134	86,529
Total assets	667,538	615,817	526,580	459,854	418,922
Long-term debt	8,125	12,622	16,061	17,674	20,190
Shareholders' equity	505,202	457,536	382,952	337,328	298,574
-----					
COMMON SHARE SUMMARY*					
Shareholders' equity per share	\$12.35	\$10.97	\$9.28	\$8.24	\$7.33
Net earnings per share	2.72	2.13	1.59	1.46	1.46
Net earnings per share before cumulative effect of accounting change**	N/A	N/A	N/A	N/A	N/A
Cash dividends paid per share	.88	.70	.61	.58	.465
Average shares outstanding	41,603,128	41,525,145	41,168,798	40,873,186	40,703,024
-----					
OTHER FINANCIAL STATISTICS					
Cash dividends paid	\$36,681	\$ 29,060	\$ 25,110	\$ 23,700	\$ 18,931
% dividends paid to net earnings	32.4%	32.8%	38.3%	39.7%	31.7%
Capital expenditures	37,949	30,921	32,319	24,587	19,871
Depreciation and amortization	18,699	16,597	14,862	12,787	11,178
Current ratio	3.5	3.6	3.5	3.9	3.7
Total debt to total capital	1.7%	3.4%	5.1%	5.6%	7.1%
Effective tax rate	38.0%	43.1%	48.2%	46.6%	48.0%
Pre-tax earnings as % of net sales	21.4%	20.7%	18.9%	18.9%	21.2%
Net earnings as % of net sales	13.3%	11.7%	9.8%	10.1%	11.0%
After-tax return on average shareholders' equity	23.5%	21.1%	18.2%	18.8%	21.4%
Common stock price range*	44 7/8-32 3/4	46 1/2-24 1/4	32 1/8-20 3/8	21-16 18 3/4-13 1/2	
-----					

<FN>

- \* Adjusted for two-for-one stock split in 1986.  
\*\* Based on net earnings before cumulative effect of accounting change. In 1991, the Corporation elected early adoption of the accounting provisions of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions."

39

## INVESTOR INFORMATION

### COMMON STOCK PRICES

QUARTER	1994	1993
First	\$44 3/8-37 5/8	\$34 3/4-30 1/2
Second	41 3/8-34 3/4	39 1/4-33 1/4
Third	38 3/8-33 1/4	44 1/2-38
Fourth	35 1/8-29	40 1/2-36 3/8

### DIVIDENDS PER COMMON SHARE

QUARTER	1994	1993
First	\$ .27	\$ .27
Second	.27	.27
Third	.27	.27
Fourth	.27	.27
	\$1.08	\$1.08

## INVESTOR INFORMATION

Snap-on Incorporated common stock is traded on the New York Stock Exchange,

Ticker Symbol - SNA

TRANSFER AGENT AND REGISTRAR  
Harris Trust and Savings Bank  
311 West Monroe Street  
Eleventh Floor  
Chicago, Illinois 60690

SHAREHOLDER INQUIRIES

Shareholders with questions may call the Transfer Agent, Harris Bank, toll-free at 1-800-524-0687.

DIVIDEND RECORD AND PAY DATES FOR 1995

QUARTER	Record Date	Pay Date
First	February 17th	March 10th
Second	May 19th	June 9th
Third	August 21st	September 11th
Fourth	November 20th	December 11th

SHAREHOLDERS

The approximate number of shareholder accounts of record as of December 31, 1994, was 9,292.

DIVIDEND REINVESTMENT

Snap-on shareholders may increase their investment in the Corporation through a no-commission dividend reinvestment plan. For information, write to:

Harris Trust and Savings Bank  
Dividend Reinvestment Plan Services  
P.O. Box A3309  
Chicago, Illinois 60690-0735  
Or phone: 1-800-524-0687

FINANCIAL INFORMATION

Refer specific financial questions to Denis J. Loverine, Treasurer, (414) 656-5421.

FORM 10K AND OTHER FINANCIAL PUBLICATIONS

Available without charge from the Public Relations Department, General Offices, (414) 656-4808 (recorded message).

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Racine on the Lake Civic Center, 5 Fifth Street, Racine, Wisconsin, at 10:00 a.m., April 28th, 1995.

GENERAL OFFICES

2801-80th Street  
Kenosha, Wisconsin 53141-1410  
Phone (414) 656-5200

SUBSIDIARIES

A.T.I. Tools, Inc.  
Balco, Inc.  
Herramientas Snap-on de Mexico, S.A.  
J. H. Williams Company  
Sioux Tools, Inc.  
Snap-on Financial Services, Inc.  
Snap-on Tools (Australia) Pty. Ltd.  
Snap-on Tools of Canada Ltd.  
Snap-on Tools GmbH

Snap-on Tools International, Ltd.  
Snap-on Tools Japan, K.K.  
Snap-on Tools Limited  
Snap-on Tools Worldwide, Inc.  
Sun Electric Corporation  
Wheeltronic Ltd.

## EXHIBIT (22)

## SUBSIDIARIES OF THE CORPORATION

Name	State or other jurisdiction of organization
A.T.I. Tools, Inc.	Delaware
Balco, Inc.	California
Herramientas Snap-on de Mexico, S.A.	Mexico
J. H. Williams Company	Delaware
Sioux Tools, Inc.	Iowa
Snap-on Financial Services, Inc.	Nevada
Snap-on Tools (Australia) Pty. Ltd.	Australia
Snap-on Tools of Canada Ltd.	Canada
Snap-on Tools GmbH	Germany
Snap-on Tools International, Ltd.	U.S. Virgin Islands
Snap-on Tools Japan, K.K.	Japan
Snap-on Tools Limited	United Kingdom
Snap-on Tools Worldwide, Inc.	Michigan
Sun Electric Corporation	Delaware
Wheeltronic Ltd.	Ontario



<ARTICLE> 5

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This schedule contains summary financial information extracted from the Consolidated Balance Sheets and Consolidated Statement of Earnings found on pages 23, 24 and 25 of the Corporation's Annual Report for the year ended December 31, 1994 and is qualified in its entirety by reference to such financial statements.

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