NEW YORK TIMES CO
Form DEF 14A
March 12, 2010
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant x

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**THE NEW YORK TIMES COMPANY**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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# The New York Times Company

## Notice of 2010 Annual Meeting and Proxy Statement

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**620 Eighth Avenue**

**New York, NY 10018**

**tel 212-556-1234**

# Invitation to 2010 Annual Meeting of Stockholders

**DATE: Tuesday, April 27, 2010**

**TIME: 10:00 a.m.**

**PLACE: TheTimesCenter**

**242 West 41st Street, New York, NY 10018**

March 12, 2010

Dear Fellow Stockholder:

Please join me at our Annual Meeting on Tuesday, April 27, 2010, where you will be asked to vote on the election of the Board of Directors, the adoption of a new 2010 Incentive Compensation Plan and the ratification of the selection of auditors.

There are a few changes to the Board slate this year. Daniel H. Cohen, a member of the Ochs-Sulzberger family, Scott Galloway and William E. Kennard are not standing for election at this year s Annual Meeting. Each provided invaluable advice during his tenure, and we are grateful for their many contributions.

I am very pleased to have Carolyn D. Greenspon as a new nominee for election to our Board this year. She is a fifth-generation member of the Ochs-Sulzberger family and brings a deep appreciation of the values and societal contributions of The New York Times and our Company throughout their history.

The Company is once again taking advantage of the Securities and Exchange Commission rule that allows us to provide proxy materials over the Internet. On or about March 12, 2010, we will begin mailing a Notice of Internet Availability of Proxy Materials to stockholders informing them that the Proxy Statement, 2009 Annual Report and voting instructions are available online. As more fully described in that Notice, all stockholders may choose to access proxy materials on the Internet or may request to receive paper copies of the proxy materials.

In addition to the formal items of business at the Annual Meeting, my colleagues and I will review the major Company developments over the past year and share with you our plans for the future. You will have an opportunity to ask questions and express your views to the senior management of The New York Times Company. Members of the Board of Directors will also be present.

Whether or not you are able to attend the Annual Meeting in person, it is important that your shares be represented. Please vote your shares using the Internet or the designated toll-free telephone number, or by requesting a printed copy of the proxy materials and completing and returning by mail the proxy card you will receive in response to your request. Instructions on each of these voting methods are outlined in the enclosed Proxy Statement. Please vote as soon as possible.

I hope to see you on April 27th.

Arthur Sulzberger, Jr.

*Chairman of the Board*

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**620 Eighth Avenue**

**New York, NY 10018**

**tel 212-556-1234**

# Notice of Annual Meeting of Stockholders

To be held Tuesday, April 27, 2010

### To the Holders of Class A and Class B

### Common Stock of The New York Times Company:

The Annual Meeting of Stockholders of The New York Times Company will be held at 10:00 a.m., local time, on Tuesday, April 27, 2010, at TheTimesCenter, 242 West 41st Street, New York, NY 10018, for the following purposes:

1. To elect a Board of 13 members;

2. To consider and act upon a proposal to adopt The New York Times Company 2010 Incentive Compensation Plan (the 2010 Incentive Plan );

3. To consider and act upon a proposal to ratify the selection of Ernst & Young LLP, an independent registered public accounting firm, as auditors for the fiscal year ending December 26, 2010; and

4. To transact such other business as may properly come before the meeting.

Holders of the Class A and Class B common stock as of the close of business on February 26, 2010, are entitled to notice of and to attend this meeting as set forth in the Proxy Statement. Class A stockholders are entitled to vote for the election of four of the 13 directors. Class A and Class B stockholders, voting together as a single class, are entitled to vote on the proposal to approve the 2010 Incentive Plan and to ratify the selection of Ernst & Young LLP as auditors for the 2010 fiscal year. Class B stockholders are entitled to vote for the election of nine of the 13 directors and on all other matters presented to the meeting.

**WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE VOTE AS PROMPTLY AS POSSIBLE USING THE INTERNET OR THE DESIGNATED TOLL-FREE TELEPHONE NUMBER, OR BY REQUESTING A PRINTED COPY OF THE PROXY MATERIALS AND COMPLETING AND RETURNING BY MAIL THE PROXY CARD YOU WILL**

**RECEIVE IN RESPONSE TO YOUR REQUEST. THIS IS IMPORTANT FOR THE PURPOSE OF ENSURING A QUORUM AT THE MEETING.**

New York, NY

March 12, 2010

By Order of the Board of Directors

KENNETH A. RICHIERI

*Senior Vice President, General Counsel & Secretary*

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# The New York Times Company

# Proxy Statement

# Annual Meeting of Stockholders to be Held on April 27, 2010

**Voting on Matters Before the Annual Meeting**

**Q: What am I voting on?**

A: There are three items that stockholders are asked to vote on at the 2010 Annual Meeting:

**Proposal 1**: Election of the Board of Directors.

**Proposal 2**: Adoption of The New York Times Company 2010 Incentive Compensation Plan.

**Proposal 3**: Ratification of the selection of Ernst & Young LLP as auditors for the fiscal year ending December 26, 2010.

**Q: Who is entitled to vote?**

A: The New York Times Company has two classes of outstanding voting securities: Class A stock and Class B stock. Stockholders of record of Class A or Class B stock as of the close of business on February 26, 2010, may vote at the 2010 Annual Meeting. As of February 26, 2010, there were 144,725,876 shares of Class A stock and 824,475 shares of Class B stock outstanding. Each share of stock is entitled to one vote.

**Proposal 1**: Class A stockholders vote for the election of four of the 13 directors. Class B stockholders vote for the election of nine of the 13 directors.

**Proposal 2**: Class A and B stockholders, voting together as a single class, vote on this proposal.

**Proposal 3**: Class A and B stockholders, voting together as a single class, vote on this proposal.

**Q: Why did I receive a notice in the mail regarding the Internet availability of the proxy materials instead of a paper copy of the proxy materials?**

A: We have elected to furnish to our stockholders this Proxy Statement and our 2009 Annual Report by providing access to these documents on the Internet rather than mailing printed copies. Accordingly, a Notice of Internet Availability of Proxy Materials (the Notice ) is being mailed to our registered holders and beneficial owners (other than those who previously requested printed copies or electronic delivery of our proxy materials), which will direct stockholders to a Web site where they can access our proxy materials and view instructions on how to vote online or by telephone. If you would prefer to receive a paper copy of our proxy materials, please follow the instructions included in the Notice.

**Q: What is the date of distribution of the Notice?**

A: The Notice is being distributed to our stockholders beginning on or about March 12, 2010.

**Q: How do I get electronic access to the proxy materials?**

A: The Notice will provide you with instructions regarding how to:

- View our proxy materials for the Annual Meeting on the Internet; and
- Request to receive our proxy materials in printed form by mail or electronically by e-mail.

In addition, stockholders may request to receive all future stockholder communications (*i.e.,* the annual report, proxy statement and other correspondence) electronically, instead of in print, and we encourage you to do so.

**Q: What is the difference between holding shares as a registered holder and as a beneficial owner of shares held in street name?**

A: Registered Holder. If your shares are registered directly in your name on the books of the Company maintained with the Company s transfer agent, BNY Mellon Shareowner Services, you are considered the registered holder of those shares and the Notice is being sent directly to you by the Company.

Beneficial Owner of Shares Held in Street Name. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name (also called a street name holder), and the Notice is being forwarded to you by your broker, bank or nominee. As a beneficial owner, you have the right to direct your broker, bank or nominee on how to vote the shares held in your account.

**Q: How do I cast my vote if I am a registered holder?**

A: If you are a registered holder you can vote your shares in one of two ways: either by proxy or in person at the

Annual Meeting. If you choose to vote by proxy you may do so by using the Internet or the designated toll-free telephone number, or by requesting a printed copy of our proxy materials and completing and returning by mail the proxy card you will receive in response to your request. See Voting Methods on page 4 for more details.

Whichever method you use to vote by proxy, each valid proxy received in time will be voted at the Annual Meeting in accordance with your instructions. To ensure that your proxy is voted, it should be received by the close of business on April 26, 2010. If you submit a proxy without giving instructions, your shares will be voted as recommended by the Board of Directors.

**Q: How do I cast my vote if I am a beneficial owner of shares held in street name?**

A: If you are a beneficial owner of shares held in street name, while you are invited to attend the Annual Meeting, you may only vote your shares in person at the Annual Meeting if you bring with you a legal proxy from the registered holder. A legal proxy may be obtained from your broker, bank or nominee.

If you do not wish to vote in person at the Annual Meeting, you may vote over the Internet by following the instructions provided in the Notice, or, if you requested to receive printed proxy materials, you will receive voting instructions from your broker, bank or nominee describing the available processes for voting your stock.

**Voting your shares is even more important this year due to a recently amended New York Stock Exchange ( NYSE ) rule that prohibits your broker from voting your shares on Proposals 1 and 2 without your instructions. See Will abstentions or broker non-votes affect the voting results?**

**Q: Who will serve as inspector of elections?**

A: BNY Mellon Shareowner Services has been engaged as the independent inspector of election to tabulate stockholder votes at the Annual Meeting.

**Q: How does the Board of Directors recommend voting?**

A: The Board of Directors recommends voting:

FOR each nominee to the Board of Directors; and

FOR the adoption of the 2010 Incentive Plan; and

The Audit Committee of the Board recommends voting:

FOR ratification of Ernst & Young LLP as auditors.

**Q: How will my stock be voted on other business brought up at the Annual Meeting?**

A: By submitting your proxy, you authorize the persons named as proxies to use their discretion in voting on any other matter brought before the Annual Meeting. The New York Times Company does not know of any other business to be considered at the Annual Meeting.

**Q: Can I change my vote or revoke my proxy?**

A: Yes. If you are a registered holder, you can change your vote or revoke your proxy at any time before it is voted at the Annual Meeting by executing a later-dated proxy on the Internet, by telephone or mail or by voting by ballot at the Annual Meeting.

If you are a beneficial owner of shares, you may submit new voting instructions by contacting your bank, broker or nominee. You may also vote in person at the Annual Meeting if you obtain a legal proxy as described above.

**Q: What is the quorum requirement for the Annual Meeting?**

A: The holders of record of a majority of the Company s shares of stock issued and outstanding on the record date and entitled to vote, in person or by proxy, constitutes a quorum for the transaction of business at the Annual Meeting. However, as described elsewhere in this Proxy Statement, the Certificate of Incorporation of the Company provides that Class A stockholders, voting separately, are entitled to elect 30% of the Board of Directors (or the nearest larger whole number) and the Class B stockholders, voting separately, are entitled to elect the balance of the Board of Directors. Accordingly, with respect to the election of Directors, the holders of a majority of the shares of each of the Class A and Class B stock, respectively, constitutes a quorum for the election of the Board of Directors. Abstentions and broker non-votes (as described below) are counted as present for establishing a quorum.

**Q: Will abstentions or broker non-votes affect the voting results?**

A: Abstentions or withheld votes will have no effect on the outcome of the vote on Proposal 1; abstentions and broker non-votes, as explained further below, will have the same effect as votes against Proposal 2 and abstentions will have the same effect as votes against Proposal 3.

If a broker that is the holder of shares indicates on a proxy form that it does not have discretionary authority to vote those shares on a proposal, or if shares are voted in other circumstances in which proxy authority

is defective, those non-voted shares ( broker non-votes ) will be counted as present for quorum purposes but as not voting on the proposal.

Under a recently amended NYSE rule, if you hold your shares through a bank or brokerage firm, your broker will not be entitled to vote your shares on Proposal 1 (election of the Board of Directors) or Proposal 2 (adoption of the 2010 Incentive Plan) without your express voting instructions. As a result, if you do not vote your shares on Proposals 1 and 2 your shares will remain unvoted on these proposals. Therefore, it is very important that you vote your shares on all proposals.

If you hold your shares through a bank or brokerage firm and your broker delivers to you the Notice, or, upon request, a copy of the proxy materials, your broker will be entitled to vote your shares on Proposal 3 (ratification of the selection of Ernst & Young as the Company s independent registered public accounting firm for 2010) without your voting instructions.

**Q: How do I vote my shares in The New York Times Companies Supplemental Retirement and Investment Plan, the Mechanical Unions Savings Trust 401(k) Plan and the BNG/Boston Globe Savings 401(k) Plan (each, a 401(k) Plan )?**

A: If you are a participant in our 401(k) Plans, you may instruct the trustee for your 401(k) Plan on how to vote the shares attributed to your account by mail, by telephone, or on the Internet, except that, if you vote by mail, the card that you use will be a voting instruction card rather than a proxy card.

**Q: What happens if I do not vote my 401(k) Plan shares?**

A: The plan trustee will vote your shares (and any other shares for which it did not receive timely voting instructions) in the same proportion as the shares and fractional shares for which the plan trustee has received timely instructions from others who do vote. Voting instructions must be received no later than 11:59 p.m. on April 22, 2010, so that the plan trustees (who vote the shares on behalf of participants of the 401(k) Plans) have adequate time to tabulate the voting instructions.

**Q: Who pays for the solicitation of proxies and how are they solicited?**

A: Proxies are being solicited by our Board of Directors. We will bear the costs of the solicitation of the proxies on behalf of the Board of Directors. Our Directors, officers or employees may solicit proxies in person, or by mail, telephone, facsimile or electronic transmission. The costs associated with the solicitation of proxies will include the cost of preparing, printing, and mailing our proxy materials, the Notice and any other information we send to stockholders. In addition, we must pay banks, brokers, custodians and other persons representing beneficial owners of shares held in street name certain fees associated with:

- Forwarding the Notice to beneficial owners of our common stock;
- Forwarding our printed proxy materials by mail to beneficial owners who specifically request them; and
- Obtaining beneficial owners voting instructions.

We will also reimburse those firms for their reasonable expenses in accordance with applicable rules. If you choose to access the proxy materials and/or vote on the Internet, you are responsible for Internet access charges you may incur. If you choose to vote by telephone, you are responsible for telephone charges you may incur. We have engaged Georgeson Inc. to assist in soliciting proxies, and we expect to pay this firm a fee of $10,000, plus out-of-pocket expenses.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR**

**THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON APRIL 27, 2010.**

This Proxy Statement is available at http://www.nytco.com/investors/financials/proxy_statements.html , and the 2009 Annual Report is available at http://www.nytco.com/investors/financials/annual_reports.html . Information on how to obtain directions to attend the Annual Meeting is available at http://thetimescenter.com .

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### Voting Methods

We have been advised by our legal counsel that the procedures that have been put in place are consistent with the requirements of applicable state law. **Please remember that if your stock is held through a broker or bank, you will receive voting instructions from your bank or broker describing the available processes for voting your stock. In addition, if you hold shares through a 401(k) Plan, you will receive instructions on how you may vote the shares attributed to your account by mail, by telephone or on the Internet.**

#### Voting in Person at the Annual Meeting

All registered holders may attend the Annual Meeting to be held at 10:00 a.m. on Tuesday, April 27, 2010, at TheTimesCenter, 242 West 41st Street, New York, NY 10018.

*Please note that if you hold your stock in street name, you can vote in person at the Annual Meeting only if you obtain a legal proxy from your bank or broker. Please contact your bank or broker for information.*

#### Internet Voting (Available 24 hours a day)

All registered holders may vote on the Internet by following the instructions in the Notice or by accessing:

http://www.proxyvoting.com/nyt

All street name holders may vote on the Internet by following the instructions in the Notice or by accessing:

http://www.proxyvote.com

Have your Notice of Internet Availability of Proxy Materials, proxy card or voting instruction form in hand and follow the instructions.

**Telephone Voting (Available 24 hours a day)**

All registered holders may vote by calling the following toll-free telephone number:

1-866-540-5760

Follow the voice prompts.

*If you are a street name holder, and you requested to receive printed proxy materials, you may vote by telephone if your bank or broker makes that method available to you in the voting instruction form enclosed with the proxy materials that your bank or broker sends to you.*

**Proxy Card Voting by Mail**

If you are a registered holder and you requested to receive printed proxy materials:

Mark your selections on the proxy card.

Date and sign your name as it appears on the proxy card.

Mail the completed proxy card in the return envelope provided.

***Note: If you voted on the Internet or by telephone, do not return your proxy card by mail.***

*If you are a street name holder, and you requested to receive printed proxy materials, you can vote by mailing your completed voting instruction form that you receive from your bank or broker.*

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## Where to Find More Information on The New York Times Company

**Documents Filed with the Securities and Exchange Commission ( SEC )**

This Proxy Statement is accompanied by our 2009 Annual Report, which includes our Annual Report on Form 10-K for the fiscal year ended December 27, 2009, that we have previously filed with the SEC and that includes audited financial statements.

You can obtain any of the documents that we file with the SEC (including a copy of our Annual Report on Form 10-K for the fiscal year ended December 27, 2009) by contacting us or the SEC (see below for information on contacting the SEC). To obtain documents from us, please direct requests in writing or by telephone to:

The New York Times Company

620 Eighth Avenue

New York, NY 10018

Phone: (212) 556-1234

Attention: Senior Vice President, General

Counsel & Secretary

We will send you the requested documents without charge, excluding exhibits.

**Additional Information**

There are a number of other sources for additional information on The New York Times Company:

SEC. We file reports, proxy statements and other information with the SEC, much of which can be accessed through the SEC s Web site (http://www.sec.gov) or can be reviewed and copied at the SEC s Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. Please call (800) 732-0330 for further information on the Public Reference Room.

NYSE. As the Class A stock of The New York Times Company is listed on the NYSE, reports and other information on the Company can be reviewed at the office of the New York Stock Exchange at 20 Broad Street, New York, NY 10005.

The New York Times Company Web site. Our Web site at http://www.nytco.com provides ongoing information about the Company and its performance, including documents filed with the SEC. In addition, printable versions of the following materials can be found on the Corporate Governance section of our Web site at

http://www.nytco.com/corporate_governance/index.html :

- Corporate Governance Principles
- Board Committee Charters:
  - Audit Committee
  - Compensation Committee
  - Nominating & Governance Committee
  - Finance Committee
- Code of Ethics for the Chairman, Chief Executive Officer, Vice Chairman and Senior Financial Officers
- Code of Ethics for Directors
- Business Ethics Policy
- Policy on Transactions with Related Persons

Please note that information contained on our Web site does not constitute part of this Proxy Statement.

**IMPORTANT NOTE:**

**This Proxy Statement is dated March 12, 2010. You should not assume that the information contained in this Proxy Statement is accurate as of any date other than such date, and the furnishing of this Proxy Statement to stockholders shall not create any implication to the contrary.**

## General Information

### The 1997 Trust

Since the purchase of The New York Times newspaper by Adolph S. Ochs in 1896, control of The New York Times and related properties has rested with his family. Family members have taken an active role in the stewardship and management of The New York Times Company. The title of Publisher of The New York Times has been held by various family members, from Adolph S. Ochs to the current Publisher, Arthur Sulzberger, Jr., who also serves as the current Chairman of the Board.

In February 1990, on the death of Adolph S. Ochs s daughter, Iphigene Ochs Sulzberger ( Mrs. Sulzberger ), control passed to her four children through the automatic termination of a trust established by Mr. Ochs. That trust held 83.7% of the Class B stock of the Company, which is not publicly traded and the holders of which have the right to elect approximately 70% of the Board of Directors. Mrs. Sulzberger s four children are: Marian S. Heiskell, Ruth S. Holmberg, Judith P. Sulzberger and Arthur Ochs Sulzberger (the grantors ).

In 1997, the grantors executed an indenture (the Trust Indenture ) creating a trust (the 1997 Trust ) for the benefit of each of the grantors and his or her family. The grantors transferred to the 1997 Trust all shares of Class B stock previously held by the trust established by Adolph S. Ochs, together with a number of shares of Class A stock. The 1997 Trust currently holds 738,810 shares of Class B stock and 1,400,000 shares of Class A stock. The primary objective of the 1997 Trust is to maintain the editorial independence and the integrity of The New York Times and to continue it as an independent newspaper, entirely fearless, free of ulterior influence and unselfishly devoted to the public welfare ( the primary objective of the 1997 Trust ).

The current trustees of the 1997 Trust are Daniel H. Cohen, James M. Cohen, Lynn G. Dolnick, Susan W. Dryfoos, Michael Golden, Carolyn D. Greenspon, Eric M. A. Lax and Arthur Sulzberger, Jr. (the Trustees ).

The 1997 Trust will continue in existence until the expiration of 21 years after the death of the last remaining survivor of all descendants of Mrs. Sulzberger living on December 14, 2000. The Trust Indenture is subject to the terms and provisions of a 1986 shareholders agreement (the Shareholders Agreement ) among the grantors, their children and the Company, which restricts the transfer of Class B stock that is held by the trust by requiring, prior to any sale or transfer, the offering of those shares among the other family stockholders and then to the Company at the Class A stock market price then prevailing (or if the Company is the purchaser, at the option of the selling stockholder, in exchange for Class A stock on a share-for-share basis). The Shareholders Agreement provides for the conversion of such shares into Class A stock if the purchase rights are not exercised by the family stockholders or the Company and such shares of Class A stock are to be transferred to a person or persons other than family stockholders or the Company. There are certain exceptions for gifts and other transfers within the family of Adolph S. Ochs provided that the recipients become parties to the Shareholders Agreement.

In addition, the Shareholders Agreement provides that if the Company is a party to a merger (other than a merger solely to change the Company s jurisdiction of incorporation), consolidation or plan of liquidation in which such Class B stock is exchanged for cash, stock, securities or any other property of the Company or of any other corporation or entity, each signing stockholder will convert his or her shares of such Class B stock into Class A stock prior to the effective date of such transaction so that a holder of such shares will receive the same cash, stock or other consideration that a holder of Class A stock would receive in such a transaction. Except for the foregoing, each signing stockholder has agreed not to convert any shares of such Class B stock received from a trust created under the will of Adolph S. Ochs into Class A stock. The Shareholders Agreement will terminate upon the expiration of 21 years after the death of the last remaining survivor of all descendants of Mrs. Sulzberger living on August 5, 1986.

The Trustees, subject to the limited exceptions described below, are directed to retain the Class B stock held in the 1997 Trust and not to sell, distribute or convert such shares into Class A stock and to vote such Class B stock against any merger, sale of assets or other transaction pursuant to which control of The New York Times passes from the Trustees, unless they determine that the primary objective of the 1997 Trust can be achieved better by the sale, distribution or conversion of such stock or by the implementation of such transaction. If upon such

determination any Class B stock is distributed to the beneficiaries of the 1997 Trust, it must be distributed only to descendants of Mrs. Sulzberger, subject to the provisions of the Shareholders Agreement (if it is still in effect). Similarly, any sale by the 1997 Trust of Class B stock upon such determination can be made only in compliance with the Shareholders Agreement.

The Trustees are granted various powers and rights, including among others: (i) to vote all of the shares of Class A and Class B stock held by the 1997 Trust; (ii) to nominate the successor trustees who may also serve on the Company s Board of Directors; and (iii) to amend certain provisions of the Trust Indenture, but not the provisions

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relating to retaining the Class B stock or the manner in which such shares may be distributed, sold or converted. The Trustees act by the affirmative vote of six of the eight Trustees. Generally, a Trustee may be removed by the agreement of six of the remaining seven Trustees. In general, four of the trustees will be appointed by all eight trustees; the remaining four trustees will be elected by the beneficiaries of the 1997 Trust.

Upon the termination of the 1997 Trust at the end of the stated term thereof, the shares of Class A and Class B stock held by such trust will be distributed to the descendants of Mrs. Sulzberger then living.

On February 26, 2010, the Trustees also controlled, through a limited liability company, an additional 4,300,197 shares of Class A stock that are held in various family limited partnerships.

We have been informed by representatives of the Ochs-Sulzberger family that on February 26, 2010 the aggregate holdings of the 1997 Trust and the descendants of Mrs. Sulzberger represent approximately 19% of the Company s total equity (*i.e.*, Class A and Class B stock of the Company).

## Principal Holders of Common Stock

The following table sets forth the only persons who, to the knowledge of management, owned beneficially on February 26, 2010, more than 5% of the outstanding shares of either Class A or Class B stock:

| | Shares (%) | | | |
|---|---|---|---|---|
| Name and Address | Class A | | Class B | |
| 1997 Trust[1,2]<br>620 Eighth Avenue<br>New York, NY 10018 | 6,439,007 | (4.4%) | 738,810 | (89.6%) |
| Daniel H. Cohen[1,2,3]<br>620 Eighth Avenue<br>New York, NY 10018 | 6,590,280 | (4.5%) | 740,430 | (89.8%) |
| James M. Cohen[1,2,4]<br>620 Eighth Avenue<br>New York, NY 10018 | 6,618,264 | (4.6%) | 740,430 | (89.8%) |
| Lynn G. Dolnick[1,2,5]<br>620 Eighth Avenue<br>New York, NY 10018 | 6,568,750 | (4.5%) | 739,928 | (89.8%) |
| Susan W. Dryfoos[1,2,6]<br>620 Eighth Avenue<br>New York, NY 10018 | 6,847,177 | (4.7%) | 739,770 | (89.7%) |
| Michael Golden[1,2,7]<br>620 Eighth Avenue<br>New York, NY 10018 | 6,897,414 | (4.7%) | 739,930 | (89.8%) |
| Carolyn D. Greenspon[1,2,8]<br>620 Eighth Avenue<br>New York, NY 10018 | 6,471,560 | (4.5%) | 739,170 | (89.7%) |
| Eric M. A. Lax[1,2,9] | 6,470,083 | (4.5%) | 738,810 | (89.6%) |

| | | | | |
|---|---|---|---|---|
| 620 Eighth Avenue<br><br>New York, NY 10018 | | | | |
| Arthur Sulzberger, Jr.[1,2,10]<br><br>620 Eighth Avenue<br><br>New York, NY 10018 | 7,105,711 | (4.9%) | 739,770 | (89.7%) |
| Carlos Slim Helú[11]<br><br>Paseo de las Palmas 736<br><br>Colonia Lomas de Chapultepec<br><br>11000 México, D.F., México | 25,950,000 | (16.2%) | | |
| Harbinger Capital Partners Group[12]<br><br>450 Park Avenue, 30th Floor<br><br>New York, NY 10022 | 18,386,799 | (12.7%) | | |
| T. Rowe Price Associates, Inc.[13]<br><br>100 E. Pratt Street<br><br>Baltimore, MD 21202 | 11,593,739 | (8.0%) | | |

1. Each of the Trustees shares voting and investment power with respect to the shares owned by the 1997 Trust. Thus, under SEC regulations, each may be deemed a beneficial owner of the shares held by the 1997 Trust. Such shares are therefore included in the amounts listed in this table for each of them. As a result of this presentation, there are substantial

*(Footnotes continue on following page)*

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duplications in the number of shares and percentages shown in the table. By virtue of their being co-trustees of the 1997 Trust, the Trustees could be deemed to comprise a group within the meaning of SEC regulations. Such group is the beneficial owner in the aggregate of 8,376,848 Class A stock, representing approximately 5.7% of the outstanding shares of Class A stock, which shares include 746,568 shares issuable upon the conversion of 746,568 shares of Class B stock and 832,338 shares of Class A stock that could be acquired within 60 days upon the exercise of options and 42,000 restricted stock units of Class A stock, in each case, granted under the Company s 1991 Executive Stock Incentive Plan (the NYT Stock Plan ), or its Non-Employee Directors Stock Option Plan or Non-Employee Directors Stock Incentive Plan (together, the Directors Plans ). In addition, we have been informed by representatives of the Ochs-Sulzberger family that the aggregate holdings of the 1997 Trust and the descendants of Mrs. Sulzberger represent approximately 19% of the Company s total equity (*i.e.*, Class A and Class B stock of the Company).

2. Class B stock is convertible into Class A stock on a share-for-share basis. Ownership of Class B stock is therefore deemed to be beneficial ownership of Class A stock under SEC regulations. For purposes of the table of Class A stock ownership, it has been assumed that each person listed therein as holding Class B stock has converted into Class A stock all shares of Class B stock of which that person is deemed the beneficial owner. Thus all shares of Class B stock held by the 1997 Trust and by the Trustees have been included in the calculation of the total amount of Class A stock owned by each such person as well as in the calculation of the total amount of Class B stock owned by each such person. As a result of this presentation, there are substantial duplications in the number of shares and percentages shown in the table.

3. In addition to the amounts of Class A and Class B stock described in notes 1 and 2, the holdings for Daniel H. Cohen include (a) 4,078 shares of Class A stock held jointly with his wife, 4,943 shares of Class A stock held solely and 1,620 shares of Class B stock held solely, (b) 60,275 shares of Class A stock beneficially owned by a limited liability company of which Mr. Cohen and his brother, James M. Cohen, are members, (c) 12,000 shares of Class A stock which could be acquired within 60 days upon the exercise of options granted under the Directors Plans (d) 12,730 shares of Class A stock held by four trusts of which Mr. Cohen is a trustee, (e) 11,000 shares of Class A stock held by a trust created by Mr. Cohen for the benefit of his wife and children of which Mr. Cohen is a co-trustee and (f) 44,627 shares of Class A stock held by two charitable trusts of which Mr. Cohen is a co-trustee. Mr. Cohen disclaims beneficial ownership of all shares held by the trusts described in (d), (e) and (f) above. The holdings of Class A stock reported for Mr. Cohen exclude 11,000 shares of Class A stock held by a trust of which his wife is a co-trustee, the beneficiaries of which are Mr. Cohen and his children. In addition, 10,869 Class A stock units have been credited to Mr. Cohen s account under the Company s Non-Employee Directors Deferral Plan.

4. In addition to the amounts of Class A and Class B stock described in notes 1 and 2, the holdings for James M. Cohen include (a) 66,494 shares of Class A stock and 1,620 shares of Class B stock held solely, (b) 60,275 shares of Class A stock beneficially owned by a limited liability company of which Mr. Cohen and his brother, Daniel H. Cohen, are members, (c) 44,627 shares of Class A stock held by two charitable trusts of which Mr. Cohen is a co-trustee and (d) 6,241 shares of Class A stock held by trusts created by Mr. Cohen for the benefit of his sons and stepson, of which Mr. Cohen is a sole trustee. The holdings of Class A stock reported for Mr. Cohen exclude 1,035 shares of Class A stock held by his wife. Mr. Cohen disclaims beneficial ownership of these shares as well as all shares held by the trusts described in (c) and (d) above.

5. In addition to the amounts of Class A and Class B stock described in notes 1 and 2, the holdings for Ms. Dolnick include (a) 11,640 shares of Class A stock and 1,118 shares of Class B stock held jointly with her husband, (b) 59,067 shares of Class A stock beneficially owned by a limited liability company of which Ms. Dolnick and her siblings, including Michael Golden, are members, (c) 20,000 shares of Class A stock that could be acquired within 60 days upon the exercise of options granted under the Directors Plans, (d) 30,861 shares of Class A stock held by two trusts of which Ms. Dolnick is the sole trustee, (e) 565 shares of Class A stock held by a trust of which Ms. Dolnick is a co-trustee and (f) 6,492 shares of Class A stock held by a charitable trust of which Ms. Dolnick is a co-trustee. Ms. Dolnick disclaims

beneficial ownership of the shares held by the trusts described in (d), (e) and (f) above. The holdings of Class A stock reported for Ms. Dolnick exclude 30,685 shares of Class A stock held by trusts of which Ms. Dolnick s husband is the sole trustee and the beneficiaries are their children and excludes 9,901 shares of Class A stock held by trusts of which her brother, Michael Golden, is trustee and the beneficiaries are her children. In addition, 13,529 Class A stock units have been credited to Ms. Dolnick s account under the Company s Non-Employee Directors Deferral Plan.

*(Footnotes continue on following page)*

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*(Footnotes continued from preceding page)*

6. In addition to the amounts of Class A and Class B stock described in notes 1 and 2, the holdings for Ms. Dryfoos include (a) 305,972 shares of Class A stock and 960 shares of Class B stock held solely, (b) 13,424 shares of Class A stock held by two trusts of which Ms. Dryfoos is co-trustee, (c) 11,500 shares of Class A stock held by a charitable trust of which Ms. Dryfoos and her siblings are trustees, (d) 62,314 shares of Class A stock beneficially owned by a limited liability company of which Ms. Dryfoos and her siblings are members and (e) 14,000 shares of Class A stock which could be acquired within 60 days upon the exercise of options granted under the NYT Stock Plan. Ms. Dryfoos disclaims beneficial ownership of all of the shares described in (b) and (c) above.

7. In addition to the amounts of Class A and Class B stock described in notes 1 and 2, the holdings for Michael Golden include (a) 22,429 shares of Class A stock and 1,120 shares of Class B stock held solely and 30,514 shares of Class A stock held jointly with his wife, (b) 59,067 shares of Class A stock beneficially owned by a limited liability company of which Michael Golden and his siblings, including Ms. Dolnick, are members, (c) 316,004 shares that could be acquired within 60 days upon the exercise of options granted under the NYT Stock Plan, (d) 9,901 shares of Class A stock held by two trusts created by Ms. Dolnick for the benefit of her children of which Mr. Golden is trustee, (e) 6,492 shares of Class A stock held by a charitable trust of which Mr. Golden and his siblings are co-trustees, (f) 12,000 restricted stock units of Class A stock granted under the NYT Stock Plan and (g) 880 shares of Class A stock equivalents attributed to Mr. Golden based on his holdings in the Company Stock Fund of The New York Times Companies Supplemental Retirement and Investment Plan (the Company 401(k) Plan ). The holdings of Class A stock reported for Michael Golden exclude (i) 700 shares of Class A stock owned by his wife and (ii) 100,000 stock options under the NYT Stock Plan that were transferred to a family limited partnership of which his wife is a general partner. Mr. Golden disclaims beneficial ownership of all of the shares described in (d) and (e) above.

8. In addition to the amounts of Class A and Class B stock described in notes 1 and 2, the holdings for Ms. Greenspon include (a) 4,375 shares of Class A stock and 360 shares of Class B stock held solely and (b) 27,818 shares of Class A stock held by two trusts of which Ms. Greenspon is co-trustee. Ms. Greenspon disclaims beneficial ownership of all of the shares described in (b) above.

9. In addition to the amounts of Class A and Class B stock described in notes 1 and 2, the holdings for Mr. Lax include (a) 18,586 shares of Class A stock held jointly with his wife, (b) 5,000 shares of Class A stock held as custodian for his children and (c) 7,490 shares of Class A stock held by Mr. Lax as trustee of two trusts held for his children. The holdings of Class A stock reported for Mr. Lax exclude (i) 24,696 shares of Class A stock and 960 shares of Class B stock owned by his wife, (ii) 30,353 shares of Class A stock held for the benefit of his children by his wife as custodian, (iii) 61,635 shares of Class A stock beneficially owned by a limited liability company of which Mr. Lax s wife and her siblings, including Mr. Sulzberger, Jr., are members and (iv) 6,882 shares of Class A stock held by a charitable trust of which Mr. Lax s wife and her siblings, including Mr. Sulzberger, Jr., are trustees. Mr. Lax disclaims beneficial ownership of all shares described in (i), (ii), (iii) and (iv) above.

10. In addition to the amounts of Class A and Class B stock described in notes 1 and 2, the holdings for Mr. Sulzberger, Jr. include (a) 49,755 shares of Class A stock and 960 shares of Class B stock held solely, (b) 61,635 shares of Class A stock beneficially owned by a limited liability company of which Mr. Sulzberger, Jr. and his siblings, including Mr. Lax s wife, are members, (c) 46,260 shares of Class A stock held by trusts of which Mr. Sulzberger, Jr. is a co-trustee, which were created by certain of Mr. Sulzberger, Jr. s cousins for the benefit of the latter and/or their children, (d) 6,882 shares of Class A stock held by a charitable trust of which Mr. Sulzberger, Jr. and his siblings, including Mr. Lax s wife, are trustees, (e) 470,334 shares that could be acquired within 60 days upon the exercise of options granted under the NYT Stock Plan, (f) 30,000 restricted stock units of Class A stock granted under the NYT Stock Plan and (g) 878 shares of Class A stock equivalents attributed to Mr. Sulzberger, Jr. based on his holdings in the Company Stock Fund of the Company 401(k) Plan. The holdings of Class A stock reported for Mr. Sulzberger, Jr. exclude (i) 25,920 shares of Class A stock held by trusts of which Mr. Sulzberger, Jr. s former wife is a co-trustee and the beneficiaries of which are their children, (ii) 337,000 stock options under the NYT Stock Plan that were transferred to his former wife and (iii) 75,000 stock options under the NYT Stock Plan that were transferred to a family limited partnership of which his former wife is a general partner.

*(Footnotes continue on following page)*

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11. According to information contained in a filing with the SEC pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act ), as of December 31, 2009, Inmobiliaria Carso, S.A. de C.V ( Inmobiliaria ) owns, directly or indirectly 10,050,000 shares of Class A stock. In addition, each of Inmobiliaria and Grupo Financiero Inbursa, S.A.B. de C.V. ( GFI ), as the parent company of Banco Inbursa S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa, owns, directly or indirectly, warrants to purchase 7,950,000 shares of Class A stock at a price of $6.3572 per share. The warrants, which are subject to certain anti-dilution adjustments, may be exercised at any time prior to January 15, 2015.

    Accordingly, pursuant to Rule 13d-3(d)(1)(i) of the Exchange Act, each of Inmobiliaria and GFI is deemed to beneficially own 7,950,000 shares of Class A stock issuable upon exercise of the warrants. Furthermore, according to the filing, Carlos Slim Helú, Carlos Slim Domit, Marco Antonio Slim Domit, Patrick Slim Domit, María Soumaya Slim Domit, Vanessa Paola Slim Domit and Johanna Monique Slim Domit (collectively, the Slim Family ), are beneficiaries of a trust which in turn owns all of the outstanding voting securities of Inmobiliaria and a majority of the outstanding voting equity securities of GFI. As a result, the Slim Family may be deemed to beneficially own indirectly (a) the shares of Class A stock beneficially owned by Inmobiliaria and (b) the warrants and the shares of Class A stock that may be obtained and beneficially owned by Inmobiliaria and GFI upon exercise of the warrants. See Interests of Related Persons in Certain Transactions of the Company Transaction with Carlos Slim Helú and Affiliates on page 24 for a description of the transaction entered into by the Company and Mr. Slim, members of his family and certain affiliated entities.

12. According to information contained in a filing with the SEC pursuant to the Exchange Act, as of December 1, 2009, the Harbinger Capital Partners Group (as defined below) beneficially owned 18,386,799 shares of Class A stock. According to the filing, the shares are held by persons, referred to in this Proxy Statement as the Harbinger Capital Partners Group, consisting of: Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners LLC, Harbinger Holdings, LLC and Philip Falcone.

13. According to information contained in a filing with the SEC pursuant to the Exchange Act, as of December 31, 2009, T. Rowe Price Associates, Inc. ( T. Rowe Price ) beneficially owned 11,593,739 shares of Class A stock. According to the filing by T. Rowe Price, the reported shares are owned by various individual and institutional investors for which T. Rowe Price serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Exchange Act, T. Rowe Price is deemed to be a beneficial owner of such securities; however, T. Rowe Price expressly disclaims that it is, in fact, the beneficial owner of such securities. The filing also states that, to the best of the holder s knowledge, the shares were acquired in the ordinary course of such holder s business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the Company.

## Security Ownership of Management and Directors

The following table shows the beneficial ownership, reported to the Company as of February 26, 2010, of Class A and Class B stock, including shares as to which a right to acquire ownership exists (by the exercise of stock options or the conversion of Class B stock into Class A stock) within the meaning of Rule 13d-3(d)(1) under the Exchange Act of each Director and nominee named in this Proxy Statement, the chief executive officer, the chief financial officer and the three other most highly compensated executive officers of the Company during 2009 and all Directors, nominees and executive officers of the Company as a group. A portion of the shares reported below are held by the 1997 Trust, whose Trustees share voting and, in some cases, investment power with respect thereto. See The 1997 Trust. The table also shows, under Class A Stock Units and SAR Awards, in the case of non-employee Directors, cash-settled phantom stock units credited under the Company s Non-Employee Directors Deferral Plan and, in the case of executive officers, cash-settled restricted stock units and stock appreciation rights ( SARs ) awarded under the NYT Stock Plan.

| | Class A Stock | Percent of Outstanding Class A Stock | Class A Stock Units and SAR Awards | Class B Stock | Percent of Outstanding Class B Stock |
|---|---|---|---|---|---|
| P. Steven Ainsley[1,2,3]<br>Publisher, The Boston Globe (retired, effective December 31, 2009) | 370,436 | * | 9,000 | 0 | |
| Raul E. Cesan[4]<br>Director | 65,000 | * | 53,925 | 0 | |
| Daniel H. Cohen[5,6]<br>Director | 6,590,280 | 4.5% | 10,869 | 740,430 | 89.8% |
| Robert E. Denham[4]<br>Director | 23,000 | * | 9,164 | 0 | |
| Lynn G. Dolnick[5,6]<br>Director | 6,568,750 | 4.5% | 13,529 | 739,928 | 89.8% |
| James M. Follo[2,3]<br>Senior Vice President and Chief Financial Officer | 155,097 | * | 14,253 | 0 | |
| Scott Galloway[4]<br>Director | 8,000 | * | 9,164 | 0 | |
| Michael Golden[3,5,6]<br>Vice Chairman, President and Chief Operating Officer, Regional Media Group, and Director | 6,897,414 | 4.7% | 16,305 | 739,930 | 89.8% |
| Carolyn D. Greenspon[5,6]<br>Nominee for Director | 6,471,560 | 4.5% | 0 | 739,170 | 89.7% |
| James A. Kohlberg[4]<br>Director | 8,000 | * | 9,164 | 0 | |
| Dawn G. Lepore[4]<br>Director | 8,000 | * | 9,164 | 0 | |
| David E. Liddle[4]<br>Director | 42,600 | * | 13,529 | 0 | |
| Ellen R. Marram[4]<br>Director | 44,000 | * | 26,381 | 0 | |

| | | | | | |
|---|---|---|---|---|---|
| Thomas Middelhoff[4]<br>Director | 26,709 | * | 13,529 | 0 | |
| Janet L. Robinson[2,3]<br>President, Chief Executive Officer and Director | 1,208,536 | * | 221,984 | 0 | |
| Arthur Sulzberger, Jr.[3,5,6]<br>Chairman of the Board, Publisher, The New York Times, and Director | 7,105,711 | 4.9% | 96,984 | 739,770 | 89.7% |
| Doreen A. Toben[4]<br>Director | 24,500 | * | 40,119 | 0 | |
| All Directors, Nominees and Executive Officers[5]<br>(23 individuals) | 10,988,726 | 7.4% | 651,658 | 743,988 | 90.2% |

*(Footnotes appear on following page)*

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* *Indicates beneficial ownership of less than 1%.*

1. Mr. Ainsley retired effective December 31, 2009. He is included in this table because he was one of the Company s three most highly compensated executive officers, other than the chief executive officer and chief financial officer, for 2009. As described in Notes 2 and 3 below, amounts reported for Mr. Ainsley include restricted stock units granted under the NYT Stock Plan. Although the restricted stock units vested upon Mr. Ainsley s retirement, the shares of Class A stock or (in the case of cash-settled restricted stock units) cash, as the case may be, will not be delivered to Mr. Ainsley until six months following the date of his retirement.

2. The amounts reported include shares of Class A stock that could be acquired within 60 days upon the exercise of stock options awarded under the NYT Stock Plan, as follows: Mr. Ainsley: 337,620 shares; Mr. Follo: 128,834 shares; and Ms. Robinson: 994,084 shares. Also, the amounts reported include restricted stock units, pursuant to which an executive would be awarded shares of Class A stock upon vesting, granted under the NYT Stock Plan as follows: Mr. Ainsley: 25,500 shares; Mr. Follo: 15,500 shares; and Ms. Robinson: 164,000 shares. In addition, the amounts reported include shares of Class A stock equivalents attributed to an executive officer based on their respective holdings in the Company Stock Fund of the Company 401(k) Plan as follows: Mr. Follo: 763 shares; and Ms. Robinson: 880 shares.

3. The amounts reported under Class A Stock Units and SAR Awards include: (i) cash-settled restricted stock units awarded under the NYT Stock Plan as follows: Mr. Ainsley: 9,000 units; Mr. Follo: 14,253 units; Mr. Golden: 16,305 units; Ms. Robinson: 63,650 units; and Mr. Sulzberger, Jr.: 63,650 units; and (ii) shares of Class A stock underlying cash-settled SARs awarded under the NYT Stock Plan that could be exercised within 60 days as follows: Ms. Robinson: 158,334 SARs; and Mr. Sulzberger, Jr.: 33,334 SARs.

4. The amounts reported include shares of Class A stock that could be acquired within 60 days upon the exercise of stock options under the Directors Plans, as follows: Mr. Cesan: 40,000; Mr. Denham: 8,000; Mr. Galloway: 8,000; Mr. Kohlberg: 8,000; Ms. Lepore: 8,000; Dr. Liddle: 40,000; Ms. Marram: 40,000; Dr. Middelhoff: 24,000; and Ms. Toben: 24,000.

5. Class B stock is convertible into Class A stock on a share-for-share basis. Ownership of Class B stock is therefore deemed to be beneficial ownership of Class A stock under SEC regulations. For purposes of the presentation of ownership of Class A stock in this table, it has been assumed that each Director and executive officer has converted into Class A stock all shares of Class B stock of which that person is deemed the beneficial owner. Thus, all shares of Class B stock held by the Directors and executive officers, including shares held by the 1997 Trust, have been included in the calculation of the total amount of Class A stock owned by such persons as well as in the calculation of the total amount of Class B stock owned by such persons. As a result of this presentation, there are duplications in the number of shares and percentages shown in this table.

6. See Principal Holders of Common Stock and The 1997 Trust for a discussion of this person s holdings.

**Section 16(a) Beneficial Ownership Reporting Compliance**

The Company s Directors and executive officers and the beneficial holders of more than 10% of the Class A stock are required to file reports with the SEC of changes in their ownership of Company stock. Based on its review of such reports, the Company believes that all such filing

requirements were met during 2009, except that Inmobiliaria and the Slim Family did not timely file a Form 4 reporting the purchase of 46,000 shares of Class A stock on January 20, 2009. Inmobiliaria and the Slim Family subsequently filed a Form 4 on February 23, 2009, to report this, and other, transactions.

**Proposal Number 1**

**Election of Directors**

Thirteen Directors will be elected to the Board of The New York Times Company at the 2010 Annual Meeting. Nominees proposed for election as Directors are listed below. Directors will hold office until the next Annual Meeting and until their successors are elected and qualified. Each of the nominees, except for Carolyn D. Greenspon, is now a member of the Board of Directors and was elected at the 2009 Annual Meeting for which proxies were solicited.

The Certificate of Incorporation of the Company provides that Class A stockholders have the right to elect 30% of the Board of Directors (or the nearest larger whole number). Accordingly, Class A stockholders will elect four of the 13 Directors; Class B stockholders will elect nine. Directors are elected by a plurality of the votes cast. Although approximately 30% of the Directors are elected by the holders of the Company s Class A stock and the remaining Directors by the holders of the Company s Class B stock, once elected, our Directors have no ongoing status as Class A or Class B Directors and have the same duties and responsibilities to all stockholders. Our Board serves as one Board with fiduciary responsibilities to all stockholders of the Company.

| **Class A Nominees (4)** | **Class B Nominees (9)** |
|---|---|
| Raul E. Cesan | Lynn G. Dolnick |
| Robert E. Denham | Michael Golden |
| James A. Kohlberg | Carolyn D. Greenspon |
| Dawn G. Lepore | David E. Liddle |
| | Ellen R. Marram |
| | Thomas Middelhoff |
| | Janet L. Robinson |
| | Arthur Sulzberger, Jr. |
| | Doreen A. Toben |

If any of the nominees become unavailable for election, all uninstructed proxies will be voted for such other person or persons designated by the Board. The Board has no reason to anticipate that this will occur.

Proxies will be used to vote for the election of the nominees named above unless you withhold the authority to do so when you vote your proxy. Each person nominated for election has consented to being named in this Proxy Statement and has agreed to serve if elected.

**Notes on Nominees**

Michael Golden and Lynn G. Dolnick are siblings.

Ms. Dolnick and Mr. Golden are cousins of Arthur Sulzberger, Jr.

Ms. Greenspon is the daughter of a cousin of Ms. Dolnick and Messrs. Golden and Sulzberger, Jr.

**Board of Directors Experience and Qualifications**

Consistent with the Company s Corporate Governance Principles, the Nominating & Governance Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of Director nominees, as well as the composition of the Board as a whole. This assessment includes consideration of Directors independence, diversity, character, judgment and business experience, as well as their appreciation of the Company s core purpose, core values and journalistic mission. We believe that the 13 Director nominees possess the requisite mix of skills, qualifications and experiences that will enable the Board and each committee of the Board to continue to provide sound judgment and leadership and to function effectively as a group. Each current non-employee Director has completed the comprehensive orientation program described below under Board of Directors and Corporate Governance Director Orientation. In addition, in accordance with newly adopted rules of the SEC, the biographical information for each Director nominee includes this year, under the caption Specific Experience, a summary of the specific experience, qualifications, attributes or skills that led the Board to conclude that the person should serve as a Director of the Company. It would not be possible to detail all experience, qualifications, attributes or skills possessed by each Director. Rather, we have attempted to set out those unique and important professional characteristics that each particular person brings to the Board.

## Profiles of Nominees for the Board of Directors

The following information was provided by the nominees:

**Class A Nominees**

| **RAUL E. CESAN** | |
|---|---|
| *Age:* | 62 |
| *Director Since:* | 1999 |
| *Committee Memberships:* | Audit (Chair) and Finance |
| *Principal Occupation:* | Founder and Managing Partner, Commercial Worldwide LLC (an investment firm) (from 2001) |
| *Recent Business Experience:* | President and Chief Operating Officer of Schering-Plough Corporation (from 1998 to 2001); Executive Vice President of Schering-Plough Corporation and President of Schering-Plough Pharmaceuticals (from 1994 to 1998); President of Schering Laboratories, U.S. Pharmaceutical Operations (from 1992 to 1994); President of Schering-Plough International (from 1988 to 1992) |
| *Specific Experience:* | During his nearly twenty-five year career at Schering-Plough Corporation, Mr. Cesan served in various capacities, including as the President and Chief Operating Officer as well as the President of Schering-Plough International. Mr. Cesan s international business and general management experience are valuable assets to the Company and the Board. In addition, Mr. Cesan brings significant financial expertise to the Company, the Board and the Audit Committee. |
| *Other Directorships:* | First Health Group Corp. (from 2001 to 2004) |

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**ROBERT E. DENHAM**

| | |
|---|---|
| *Age:* | 64 |
| *Director Since:* | 2008 |
| *Committee Memberships:* | Audit and Nominating & Governance (Chair) |
| *Principal Occupation:* | Partner, Munger, Tolles & Olson LLP (from 1998) |
| *Recent Business Experience:* | Chairman and Chief Executive Officer of Salomon Inc (from 1992 to 1998), General Counsel of Salomon Inc and Salomon Brothers (from 1991 to 1992); Managing Partner of Munger, Tolles & Olson LLP (from 1985 to 1991); Partner at Munger, Tolles & Olson LLP (from 1973 to 1991) |
| *Specific Experience:* | Mr. Denham s legal practice emphasizes advising clients on strategic and financial issues and providing disclosure and corporate law advice to public and private corporations and boards of directors. In addition, as Chairman and Chief Executive Officer of Salomon Inc, Mr. Denham successfully guided that investment banking firm as it was rebuilding. Mr. Denham also has extensive experience serving on the boards (and various board committees) of other large public companies and brings significant financial expertise to the Company, the Board and the Audit Committee. |
| *Other Directorships:* | Chevron Corporation (from 2004); Fomento Económico Mexicano, S.A. de C.V. (from 2001); Wesco Financial Corporation (from 2000); Alcatel-Lucent S.A. (and its predecessor, Lucent Technologies Inc.) (from 2002 to 2008) |

**James A. Kohlberg**

| | |
|---|---|
| *Age:* | 52 |
| *Director Since:* | 2008 |
| *Committee Memberships:* | Compensation |
| *Principal Occupation:* | Co-Founder and Chairman, Kohlberg & Company (a middle-market private equity firm) (from 1987) |
| *Recent Business Experience:* | Co-Founder and Chairman (from 2005), Helium Group LLC (d/b/a HalogenGuides.com); Chairman (from 2004), ClearEdge Power; Investment Professional (from 1984 to 1987), Kohlberg Kravis Roberts & Co. |
| *Specific Experience:* | Mr. Kohlberg brings to the Company and the Board his broad business and financial experience. He co-founded and serves on the boards of several private companies, including as Chairman of Kohlberg & Company, a private equity firm with portfolio companies ranging from $100 to $500 million, and Chairman of Helium Group LLC, an Internet media firm. |
| *Other Directorships:* | Kohlberg Capital Corporation (Vice Chairman) (from 2006 to 2008) |

**Dawn G. Lepore**

| | |
|---|---|
| *Age:* | 55 |
| *Director Since:* | 2008 |
| *Committee Memberships:* | Compensation and Finance |
| *Principal Occupation:* | Chairman, President and Chief Executive Officer, drugstore.com, inc. (an online provider of health, beauty, vision and pharmacy products) (from 2004) |

| | |
|---|---|
| *Recent Business Experience:* | Vice Chairman, Technology, Active Trader, Operations, Business Strategy, and Administration (from 2003 to 2004), Vice Chairman, Technology, Operations, Business Strategy and Administration (2003), Vice Chairman, Technology, Operations and Administration (from 2002 to 2003), Vice Chairman, Technology and Administration (from 2001 to 2002); and Vice Chairman and Chief Information Officer (from 1999 to 2001), Executive Vice President and Chief Information Officer (from 1993 to 1999), Vice President, Applications Development Support (from 1987 to 1993), The Charles Schwab Corporation and Charles Schwab & Co., Inc. |
| *Specific Experience:* | Ms. Lepore has deep experience in the digital and retail industries and relationships in both Silicon Valley and the Seattle technology communities. This experience, including her principal executive role at drugstore.com, aligns with the Company s strategy to grow its digital businesses. |
| *Other Directorships:* | drugstore.com, inc. (from 2004); eBay Inc. (from 1999) |

**Class B Nominees**

| LYNN G. DOLNICK | |
|---|---|
| *Age:* | 58 |
| *Director Since:* | 2005 |
| *Committee Memberships:* | Finance |
| *Principal Occupation:* | Director of various non-profit corporations |
| *Recent Business Experience:* | Associate Director, Exhibits and Outreach (from 1998 to 2004), Head, Division of Exhibits (from 1993 to 1998), Head, Office of Exhibit Interpretation (from 1991 to 1993), Special Assistant to Director (from 1986 to 1991), Director, NOAHS Center (New Opportunities in Animal Health Sciences) (from 1985 to 1987), Smithsonian s National Zoological Park |
| *Specific Experience:* | Ms. Dolnick is a fourth-generation member of the Ochs-Sulzberger family and brings to the Board a deep appreciation of the values and societal roles of The New York Times and the Company throughout their history. |

| MICHAEL GOLDEN | |
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| *Age:* | 60 |
| *Director Since:* | 1997 |
| *Principal Occupation:* | Vice Chairman of the Company (from 1997) and President and Chief Operating Officer, Regional Media Group of the Company (from 2009) |
| *Recent Business Experience:* | Publisher, The International Herald Tribune (from 2003 to 2008); Senior Vice President of the Company (from 1997 to 2004); Vice President, Operations Development, of the Company (from 1996 to 1997); Executive Vice President, NYT Sports/Leisure |

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| | Magazines, and Vice President and Publisher, *Tennis* magazine (from 1994 to 1996) and Executive Vice President and General Manager (from 1991 to 1994), NYT Women s Magazines |
| *Specific Experience:* | Mr. Golden is a fourth-generation member of the Ochs-Sulzberger family and brings a deep appreciation of the values and societal contributions of The New York Times and the Company throughout their history to his roles as Director and a key member of the Company s management team. In addition to his current roles, he has served in a variety of critical positions since joining the Company in 1978. |

**CAROLYN D. GREENSPON**

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| *Age:* | 41 |
| *Principal Occupation:* | Psychotherapist, Comprehensive Psychiatric Associates (from 2002) and Family Business Consultant (from 2008) |
| *Recent Business Experience:* | Child Outpatient Therapist (from 2000 to 2003) and Clinical Manager and Supervisor (from 1997 to 2000), Child and Adolescent Program, McLean Hospital |
| *Specific Experience:* | Ms. Greenspon is a fifth-generation member of the Ochs-Sulzberger family and will bring to the Board a deep appreciation of the values and societal contributions of The New York Times and the Company throughout their history. |

**DAVID E. LIDDLE**

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| *Age:* | 65 |
| *Director Since:* | 2000 |
| *Committee Memberships:* | Audit and Compensation (Chair) |
| *Principal Occupation:* | Partner, U.S. Venture Partners (a venture capital firm) (from 2000) |
| *Recent Business Experience:* | Chairman (1999), President and Chief Executive Officer (from 1992 to 1999) and Co-Founder (1992) of Interval Research Corporation; Vice President, New Systems Development, Personal Systems, International Business Machines Corporation (1991); Co-Founder, President and Chief Executive Officer, Metaphor Computer Systems, Inc. (from 1982 to 1991) |
| *Specific Experience:* | Dr. Liddle s background in developing technologies for interaction between people and computers has given him deep experience in articulating technological trends and directions, which is instrumental to the Company s strategy to grow its digital businesses. His current role as partner at U.S. Venture Partners provides him with exposure to investee companies in high-growth markets. In addition, Dr. Liddle brings significant financial |

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| | expertise to the Company, the Board and the Audit Committee. |
| *Other Directorships:* | MaxLinear, Inc. (from 2004) |

**Ellen R. Marram**

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| *Age:* | 63 |
| *Director Since:* | 1998 |
| *Committee Memberships:* | Finance (Chair), Compensation and Nominating & Governance |
| *Principal Occupation:* | President, The Barnegat Group, LLC (a business advisory firm) (from 2006) |
| *Recent Business Experience:* | Operating Advisor (from 2006), Managing Director, (from 2000 to 2005), North Castle Partners, LLC; President and Chief Executive Officer of efdex, Inc. (from August 1999 to May 2000) (efdex, a privately held start-up Internet-based commodities exchange, never became fully operational and in September 2000 commenced liquidation in the U.K. due to its insolvency); President (from 1993 to 1998) and Chief Executive Officer (from 1997 to 1998), Tropicana Beverage Group; Executive Vice President, The Seagram Company Ltd. and Joseph E. Seagram & Sons Inc. (from 1993 to 1998); Senior Vice President, Nabisco Foods Group, and President and Chief Executive Officer, Nabisco Biscuit Company (from 1988 to 1993) |
| *Specific Experience:* | Ms. Marram has spent more than 30 years building brands and companies, serving in key positions at public companies and private equity firms and advising private and public companies. As a result, she brings to the Company and the Board her extensive management, business and marketing experience. In addition, Ms. Marram brings to her role as Presiding Director extensive experience serving on the boards (and various board committees) of other large public companies. |
| *Other Directorships:* | Eli Lilly and Company (from 2002); Ford Motor Company (from 1988); Cadbury plc (from 2007 to 2008) |

**THOMAS MIDDELHOFF**

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| *Age:* | 56 |
| *Director Since:* | 2003 |
| *Committee Memberships:* | Compensation and Finance |
| *Principal Occupation:* | Founder, Partner and Executive Chairman, Berger Lahnstein Middelhoff & Partners LLP (an asset management firm) (from 2009) |
| *Recent Business Experience:* | Chief Executive Officer (from 2005 to 2009) and Non-executive Chairman (from 2004 to 2005) of Arcandor AG (in June 2009, Arcandor AG filed with the Essen District Court (Germany) to initiate insolvency proceedings); Managing Director, Investcorp Ltd. (from 2003 to 2005); Chairman and Chief Executive Officer (from 1997 to 2002), Head of Corporate Development and Coordinator of Multimedia Business (from 1994 to 1998), and Member of The Board Industry Division (from 1990 to 1994), Bertelsmann AG; Managing Director (from 1989 to 1990), Mohndruck Graphische Betriebe GMBH Gutersloh |
| *Specific Experience:* | Dr. Middelhoff has a strong background in international media and Internet businesses, which is highly valued by the Company and the Board as the Company continues to expand its digital businesses. Dr. Middelhoff brings to the Board more than 25 years of international experience and a global perspective gained through his leadership roles at various public and private European-based companies. |
| *Other Directorships:* | Senator Entertainment AG (from 2006); Marseille- Klinken AG (from 2009); AEG Power Solutions AG (from 2010); Germany1 Acquisition Limited (from 2008 to 2009); Thomas Cook Group plc (from 2005 to 2009); APCOA Parking AG (from 2004 to 2007); KarstadtQuelle AG (renamed Arcandor AG in 2007) (from 2004 to 2005) |

| **JANET L. ROBINSON** | |
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| *Age:* | 59 |
| *Director Since:* | 2004 |
| *Principal Occupation:* | President and Chief Executive Officer of the Company (from 2005) |
| *Recent Business Experience:* | Executive Vice President and Chief Operating Officer of the Company (2004); Senior Vice President, Newspaper Operations, of the Company (from 2001 to 2004); President and General Manager, The New York Times (from 1996 to 2004) |
| *Specific Experience:* | As the Company s President and Chief Executive Officer, Ms. Robinson is a key member of the Company s management team and has primary responsibility for overseeing and coordinating all of the Company s operations and business units. Ms. Robinson has over 25 years of experience in the media industry, including serving in critical executive positions at the Company and in leadership roles in industry groups. |

| **ARTHUR SULZBERGER, JR.** | |
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| *Age:* | 58 |
| *Director Since:* | 1997 |
| *Principal Occupation:* | Chairman of the Company (from 1997) and Publisher, The New York Times (from 1992) |
| *Recent Business Experience:* | Deputy Publisher (from 1988 to 1992) and Assistant Publisher (from 1987 to 1988), The New York Times |
| *Specific Experience:* | Mr. Sulzberger, Jr. is a fourth-generation member of the Ochs-Sulzberger family and brings a deep appreciation of the values and societal contributions of The New York Times and the Company throughout their history to his roles as Chairman and Publisher of The New York Times. He has served in a variety of critical positions since joining the Company in 1978. |

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**Doreen A. Toben**

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| *Age:* | 60 |
| *Director Since:* | 2004 |
| *Committee Memberships:* | Audit |
| *Principal Occupation:* | Director of various public corporations |
| *Recent Business Experience:* | Executive Vice President and Chief Financial Officer, Verizon Communications, Inc. (from 2002 to 2009); Senior Vice President and Chief Financial Officer, Telecom Group, Verizon Communications, Inc. (from 2000 to 2002); Vice President and Controller (from 1999 to 2000) and Vice President and Chief Financial Officer, Telecom/Network, Bell Atlantic Inc. (from 1997 to 1999) |
| *Specific Experience:* | Ms. Toben has over 26 years of experience in the communications industry, most recently serving, until 2009, as Executive Vice President and Chief Financial Officer of Verizon Communications, Inc., where she was responsible for Verizon s finance and strategic planning efforts. In addition to her deep communications industry experience, Ms. Toben s financial and accounting expertise is a valuable asset to the Company, the Board and the Audit Committee. |
| *Other Directorships:* | Liz Claiborne, Inc. (from 2009); Verizon Wireless Inc. (from 2002 to 2009); J.P. Morgan Chase & Co. (National Advisory Board Member) (from 2003 to 2008) |

## Interests of Related Persons in Certain Transactions of the Company

**Policy on Transactions with Related Persons.** See Policy on Transactions with Related Persons on pages 28-29 for a description of the Company s policy regarding any transaction between the Company and a related person.

**Interests of Directors in Certain Transactions of the Company.** In the ordinary course of business, the Company and its subsidiaries from time to time engage in transactions with other corporations whose officers or directors are also Directors of the Company. These include the Company s purchase of products and services from Verizon Communications, Inc. and the running of advertising in Company properties for the products and services of Chevron Corporation, eBay Inc., Eli Lilly and Company, Ford Motor Company, and Verizon Communications, Inc., as well as other Director-affiliated companies. All of these arrangements are conducted on an arm s-length basis. The relevant outside Director does not participate in these business relationships or profit directly from them. Due to the nature of these transactions, they may not even come to the attention of the Company s Board or the relevant Director.

**Members of the Ochs-Sulzberger Family Employed by the Company During 2009.** Arthur Sulzberger, Jr. was employed as Chairman of the Company and Publisher of The New York Times, and Michael Golden was employed as Vice Chairman, and President and Chief Operating Officer, Regional Media Group, of the Company. See Compensation of Executive Officers for a description of Mr. Sulzberger, Jr. s and Mr. Golden s compensation. James Dryfoos was employed as a Manager within Enterprise Services, The New York Times Company, and was paid a total of $144,673. Michael Greenspon was employed as Project Director, The New York Times (Strategic Planning), and Interim General Manager, News Services for The New York Times, and was paid a total of $176,961. Rachel B. Golden was employed as a Marketing Associate and Marketing Manager for NYTimes.com, and was paid a total of $82,136. Arthur Gregg Sulzberger was employed as a staff reporter for The New York Times and was paid a total of $73,503. In September 2009, Samuel Dolnick joined the Company as a staff reporter for The New York Times and was paid a total of $27,846. In 2010, David Perpich joined the Company as an Executive Director for NYTimes.com.

Mr. Sulzberger, Jr. is a cousin of Daniel H. Cohen and of Lynn G. Dolnick and Mr. Golden, who are also siblings. Carolyn D. Greenspon is the daughter of a cousin of Messrs. Sulzberger, Jr., Golden and Cohen and Ms. Dolnick. Messrs. Dryfoos and Greenspon are each the son of a cousin of Messrs. Sulzberger, Jr., Golden and Cohen and Ms. Dolnick. Ms. Greenspon and Mr. Greenspon are siblings. Ms. Golden is the daughter of Mr. Golden. Mr. Sulzberger is the son of Mr. Sulzberger, Jr., and Mr. Dolnick is the son of Ms. Dolnick. Mr. Perpich is the son of Mr. Sulzberger, Jr. s sister.

**Transaction with Carlos Slim Helú and Affiliates.** On January 19, 2009, the Company entered into a securities purchase agreement (the Securities Purchase Agreement ) with Inmobiliaria Carso, S.A. de C.V. ( Inmobiliaria ) and Banco Inbursa S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa ( Banco Inbursa ) (each an Investor and collectively the Investors ), pursuant to which the Company issued to the Investors for an aggregate purchase price of $250,000,000 (net of a $4,500,000 investor funding fee) (1) $250,000,000 aggregate principal amount of 14.053% Senior Unsecured Notes due January 15, 2015 (the Notes ), and (2) detachable warrants (the Warrants ) to purchase 15,900,000 shares of the Company s Class A stock at a price of $6.3572 per share. Each Investor purchased an equal number of Notes and Warrants. The closing of this transaction occurred on January 21, 2009. Carlos Slim Helú and members of his family are beneficiaries of a trust which in turn owns all of the outstanding voting securities of Inmobiliaria and a majority of the outstanding voting equity securities of Grupo Financiero Inbursa, S.A.B. de C.V., which is the parent company of Banco Inbursa. As a result of the issuance of the Warrants, Mr. Slim, members of his family and the Investors are deemed to beneficially own on February 26, 2010, an aggregate of 16.2% of the Company s outstanding Class A stock.

**Preemptive Rights Offering.** As a result of the agreement to issue the Warrants to the Investors, under the Company s Certificate of Incorporation and the New York Business Corporation Law, each holder of the Company s Class B stock received a non-transferable preemptive right to purchase, for each share of Class B stock owned, 0.1112 warrants (the Preemptive Warrants ), at a price of $1.33 per warrant, to purchase shares of the Company s Class A stock, at a price of $6.35 per share. The terms of the Preemptive Warrants were substantially the same as those of the Warrants issued to the Investors.

As previously mentioned on page 6 the 1997 Trust holds 738,810 shares of Class B stock of the Company, or approximately 90% of the outstanding shares of the Class B stock. The 1997 Trust and the Trustees holding an aggregate of 746,568 shares of Class B stock waived their preemptive rights triggered by the agreement to issue the Warrants to the Investors. Accordingly, an aggregate of 8,917 Preemptive Warrants were offered to the holders of an aggregate of 80,184 shares of Class B stock, and an aggregate of 559 Preemptive Warrants were issued to holders who accepted the offer.

## Board of Directors and Corporate Governance

The Board of Directors is responsible for overseeing the direction, affairs and management of the Company. The Board recognizes its fiduciary duty to both Class A and Class B stockholders.

The following highlights key corporate governance practices applicable to the Board:

**Board Leadership Structure.** Since 1997, the Company has separated the positions of Chairman of the Board of Directors and Chief Executive Officer. Given the demanding nature of these positions, and taking into account that our Chairman is currently also the Publisher of The New York Times, the Board believes it is appropriate to separate the positions of Chairman and Chief Executive Officer. Furthermore, since our Chairman is an executive officer of the Company, the Board believes it is appropriate to have a lead independent director who, among other things, chairs all executive sessions of our non-employee and independent Directors and serves as a liaison between our Chairman, our Chief Executive Officer and our independent Directors. Ellen Marram, our Presiding Director, currently serves in this role. See Presiding Director on page 27.

**The Board s Role in Risk Oversight.** Risk is an integral part of the Board and Committee deliberations throughout the year. The Audit Committee oversees the management of the Company s enterprise risk management program, and the Audit Committee annually reviews an assessment prepared by management of the critical risks facing the Company, their relative magnitude and management s actions to mitigate these risks.

Management implemented an enterprise risk management program in 2008 as a Companywide initiative to enhance our existing processes involving an integrated effort to identify, evaluate and manage risks that may affect our ability to execute our corporate strategy and fulfill our business objectives. The activities of the enterprise risk management program entail the identification, prioritization and assessment of a broad range of risks (*e.g.*, strategic, operational, financial, legal/regulatory and reputational) and the formulation of plans to mitigate their effects.

**Corporate Governance Principles.** NYSE rules require listed companies to adopt corporate governance principles. A printable copy of the current version of the Company s Corporate Governance Principles, most recently amended on February 18, 2010, is available on our Web site, as described on page 5.

**Majority Voting for Directors.** Our Corporate Governance Principles provide that each nominee for election to the Board must agree to resign upon the request of the Board if, in an uncontested election, he or she is elected to the Board but fails to receive a majority of the votes cast. In determining whether to require the Director to resign, the Board, with such person not participating, will consider all relevant facts and circumstances. The Board must make the request within 60 days and the Company must disclose the Board s decision within 65 days.

**Director Nominee Rotation.** Our Corporate Governance Principles provide that it is the policy of the Company to have an annual rotation of the nominees for election to the Board by holders of the publicly traded, Class A stock. It is intended that each of the independent directors be nominated for election by the Class A stockholders at least once every three years and that the annual slate of Class A nominees include at least one member of each of the Audit, Compensation and Nominating & Governance Committees.

This policy reinforces the principle that, once elected, our Directors have no ongoing status as Class A or Class B Directors. All Directors owe fiduciary duties and responsibilities to all of our stockholders.

**Director Election.** All Directors stand for election annually. Voting is not cumulative. Under our Certificate of Incorporation, 30% (or the nearest larger whole number) of the Directors are elected by the holders of the Company s Class A stock and the remaining Directors are elected by the holders of the Company s Class B stock. Under the New York Business Corporation Law and our Corporate Governance Principles, once elected, our Directors have no ongoing status as Class A or Class B Directors and have the same duties and responsibilities to all stockholders. Our Board serves as one Board with fiduciary responsibilities to the Company and all of our stockholders.

**Director Attendance at Annual Meetings.** All Directors are expected to attend the Company s annual meeting of stockholders. All Directors attended the Company s 2009 annual meeting of stockholders in person, except for Daniel Cohen, who could not attend due to personal health reasons.

**Director Retirement Age.** None of our Directors will stand for re-election after his or her 70th birthday, unless the Board determines otherwise.

**Directors as Stockholders.** To encourage alignment of the interests of our Directors and stockholders, all Directors are expected to own stock in the Company equal in value to at least three times the annual Board cash retainer as set from time to time by the Board. Each Director is expected to accumulate this stock over a reasonable period of time, which in the view of the Nominating & Governance Committee is an approximately five-year period. Subject to the right of new Directors to acquire the requisite holdings over time, no Director currently fails to comply with this

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stock ownership policy. Stock units held by a Director under the Company s Non-Employee Directors Deferral Plan are included in calculating the value of ownership to determine whether this minimum ownership has been accumulated.

**Director Orientation.** The Company has a comprehensive orientation program for all new non-employee Directors with respect to their role as directors and as members of the particular Board committees on which they will serve. It includes one-on-one meetings with senior management and top New York Times editors and extensive written materials on each of the Company s different business units. The senior management meetings cover a corporate overview, the Company s strategic plans, its significant financial, accounting and risk management issues, its compliance programs, and its business conduct policies. All other Directors are also invited to attend each orientation program.

**Ongoing Director Education.** From time to time, the Company will provide Directors with additional educational materials and presentations from Company and/or third-party experts on subjects that would enable them to perform better their duties and to recognize and deal appropriately with issues that arise. In addition, the Company will pay all reasonable expenses for any Director who wishes to attend a director continuing education program.

**Controlled Company Exception to NYSE Rules.** The Company s Board of Directors has determined not to take advantage of an available exception from certain of the NYSE rules. A company of which more than 50% of the voting power for the election of directors is held by a single entity, a controlled company, need not comply with the requirements for a majority of independent directors or for independent compensation and nominating/corporate governance committees. As a result of the 1997 Trust s holdings of Class B stock, the Company would qualify as a controlled company and could elect not to comply with these independence requirements. However, the Company s Board of Directors has determined to comply in all respects with the NYSE rules.

**Independent Directors.** The NYSE rules require listed companies to have a board of directors with at least a majority of independent directors. The Company has now, and has had for many years, a majority of independent Directors.

The NYSE rules specify five categories of relationships between an individual and a listed company that render the individual ineligible to be independent. The Board has determined that none of the Company s independent Directors has a relationship with the Company that falls within these categories.

Under the NYSE rules, a Director qualifies as independent so long as he or she has none of these impermissible relationships with the Company and upon the Board affirmatively determining that he or she has no other material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company).

For the purpose of assisting the Board in determining Director independence, the Board has adopted categorical standards defining material relationships. Under these standards, the Board has determined that the following relationships provided they are not required to be disclosed in the Company s public filings by SEC rules are immaterial to the Company for this purpose:

- if the Director does business with the Company, or is affiliated with an entity with which the Company does business, so long as payments by or to the Company do not exceed the greater of $1,000,000 or, in the case of an affiliated entity, 2% of the annual revenues of such entity; or

- if the Director serves as an officer or director of a charitable organization to which the Company, The New York Times Company Foundation or The New York Times Neediest Cases Fund makes a donation, so long as the aggregate annual donations do not exceed the greater of $1,000,000 or 2% of that organization s annual charitable receipts.

The Board has determined that each of the Company s independent Directors has only immaterial relationships with the Company consistent with these categorical standards. In addition, in the course of the Board s determination regarding independence, it considered certain transactions, relationships and arrangements, all of which were deemed to be in the ordinary course of business and conducted on an arm s-length basis. See Interests of Directors in Certain Transactions of the Company.

Based on the foregoing, the Board has affirmatively determined that each of Messrs. Cesan, Denham, Galloway and Kohlberg, Ms. Lepore, Dr. Liddle, Ms. Marram, Dr. Middelhoff and Ms. Toben has no material relationships with the Company and, therefore, each is independent pursuant to applicable NYSE rules. Of the remaining Directors, Messrs. Sulzberger, Jr. and Golden and Ms. Robinson are executive officers of the Company, Ms. Dolnick is a cousin of Mr. Sulzberger, Jr. and a sister of Mr. Golden and Mr. Cohen is a cousin of Messrs. Sulzberger, Jr. and Golden. Ms. Greenspon, a nominee for Director, is the daughter of a cousin of Messrs. Sulzberger, Jr. and Golden. Due to their family relation to Messrs. Sulzberger, Jr. and Golden, Ms. Dolnick and Mr. Cohen are not considered independent and Ms. Greenspon will not be considered independent.

**Board Committees.** Both the Sarbanes-Oxley Act of 2002 and the NYSE rules require the Company to have an audit committee comprised solely of independent directors, and the NYSE rules also require the Company to have independent compensation and nominating/corporate governance committees. The Company is in compliance with these requirements.

Under the Sarbanes-Oxley Act, members of an audit committee must have no affiliation with the issuer, other than the Board seat, and receive no compensation in a capacity other than as a director/committee member. Each member of our Audit Committee meets this independence standard.

**Audit Committee Financial Experts.** Rules promulgated by the SEC under the Sarbanes-Oxley Act of 2002 require the Company to disclose annually whether our Audit Committee has one or more audit committee financial experts, as defined by the SEC. The Board has determined that each member of the Audit Committee, including the Chair of the Audit Committee, Mr. Cesan, qualifies as an audit committee financial expert.

**Codes of Ethics.** The Company has adopted a Business Ethics Policy, applicable to all employees, a code of ethics that applies not only to the Company s Chief Executive Officer and senior financial officers, as required by the SEC, but also to its Chairman and Vice Chairman, and a code of ethics for Directors. A printable version of each of these documents is available on our Web site, as described on page 5.

**Non-Employee Directors.** The NYSE rules require that, at the listed company s option, either non-employee directors or independent directors of such company meet periodically in executive sessions without management participation. The Company s non-employee Directors meet separately at the end of each regular meeting of the Board. Additionally, at least once a year the independent Directors meet in executive session. Ms. Dolnick and Mr. Cohen are non-employee Directors who, due to their family relation to Messrs. Sulzberger, Jr. and Golden, are not considered independent. If elected, Ms. Greenspon will be a non-employee Director who, due to her family relation to Messrs. Sulzberger, Jr. and Golden, will not be considered independent.

**Presiding Director.** Ms. Marram currently serves as our Presiding Director. In addition to chairing all executive sessions of our non-employee and independent Directors, our Presiding Director:

- serves as a liaison between our Chairman, our Chief Executive Officer and our independent Directors;
- reviews proposed plans for Board meeting presentations;
- consults with any of the senior executives of the Company as to any concerns the executive might have; and
- makes herself available for direct consultation with major stockholders.

Stockholders and other interested parties may express their concerns to the Company s non-employee Directors or the independent Directors by contacting the Presiding Director, care of the Senior Vice President, General Counsel & Secretary, The New York Times Company, 620 Eighth Avenue, New York, NY 10018. All such correspondence will be relayed to the Presiding Director.

**Communications with the Board.** Stockholders may communicate with the Board of Directors care of the Senior Vice President, General Counsel & Secretary, The New York Times Company, 620 Eighth Avenue, New York, NY 10018. All such correspondence will be relayed to the entire Board of Directors.

**Board and Committee Evaluations.** Our Board has a Board and Committee evaluation process to examine and discuss how our Board and Committees function as groups and with senior management of our Company. We believe that our stockholders interests can be best protected by acknowledging the separate responsibilities of management and our Board and its Committees and by ensuring an open environment for Board and management discussions and actions.

**No Interlocking Directorships.** The Chairman of the Board, who also serves as Publisher of The New York Times, does not sit on any other company board. Although other members of senior management without editorial responsibilities are not so precluded, none sit on the boards of directors of any company at which one of our Directors is the chief executive officer or chief operating officer.

**Succession Planning.** Recognizing the critical importance of executive leadership to the success of the Company, the Board works with senior management to ensure that effective plans are in place for both short-term and long-term executive succession at The New York Times Company.

**Senior Management Evaluation.** In consultation with all non-employee Directors, the Compensation Committee annually evaluates the performance of our Chairman, President and Chief Executive Officer and Vice Chairman.

**Corporate Financial Ethics Hotline.** The Company has established a corporate financial ethics hotline to allow an employee to lodge a complaint, confidentially and anonymously, about any accounting, internal control or auditing matter that is of concern.

**Executive Stock Ownership Guidelines.** Those executive officers named in the Summary Compensation Table are subject to stock ownership guidelines. The Chairman is required to own shares of Class A stock equal to three times his base salary. The President and Chief Executive Officer, the Vice Chairman and the Chief Financial Officer are required to hold an amount equal in value to two times his or her base salary in Company stock. All other named executive officers are required to hold an amount equal in value to their base salary in Company stock. Shares held through the Company 401(k) Plan and restricted stock units are counted in calculating ownership. An executive officer s stock holdings are valued at the greater of the fair market value at year end or the officer s tax basis in the shares (or in the case of restricted stock units, the grant date fair market value). An affected executive officer has five years to attain the holding requirements. All of our named executive officers are in compliance with the guidelines.

**Board Policy on Recoupment of Bonuses Upon Restatement Due to Fraud or Misconduct.** In the event of a restatement of the Company s financial statements due to fraud or intentional misconduct, the Board will review performance-based bonuses to executive officers whose fraud or intentional misconduct caused the restatement, and the Company will seek to recoup bonuses paid for performance during the period or periods that are the subject of the restatement.

**Independent Compensation Consultant.** The Compensation Committee has directly engaged an independent compensation consultant, Exequity LLP. In 2009, Exequity reported on its review of data from nationally recognized compensation surveys. The review analyzed salary, annual and long-term cash incentive bonuses and equity compensation, as well as total compensation, for comparable executive positions at a comparative group of companies that includes traditional newspaper companies, other print publishing companies, news and information companies, and a selection of similarly-sized general industry companies and, for operating unit positions, at other comparable media companies. Exequity also provided general advice on executive compensation trends and programs, made compensation recommendations for our Chairman and Chief Executive Officer and supplied consulting services to the Compensation Committee in connection with the design and preparation of the 2010 Incentive Plan, including evaluating the plan against RiskMetrics proxy voting guidelines. Exequity has not provided any services to the Company, other than those relating to its role as compensation adviser to the Committee, during the Company s 2009 fiscal year.

See Compensation Committee Compensation Committee Procedures.

**Policy on Transactions with Related Persons.** The Board of Directors recognizes the fact that transactions with related persons present a heightened risk of conflicts of interests and/or improper valuation (or the perception thereof).

Any transaction in which the Company or any of its subsidiaries is a participant and a Director, Director nominee, executive officer or beneficial holder of more than 5% of the Company s total equity (*i.e.*, Class A and Class B stock of the Company), or any immediate family member of the foregoing (each, a related person ) has a direct or indirect material interest, and where the amount involved exceeds $120,000, must be specifically disclosed by the Company in its public filings.

Any such transaction would be subject to the Company s written policy respecting the review, approval or ratification of related person transactions.

Under this policy:

- the Company or any of its subsidiaries may employ a related person in the ordinary course of business consistent with the Company s policies and practices with respect to the employment of non-related persons in similar positions; and

- any other related person transaction that would be required to be publicly disclosed must be approved or ratified by the Board of Directors, delegated to the Nominating & Governance Committee or other committee, or if it is impractical or undesirable to defer consideration of the matter until a Board or committee meeting, by the Chair of the Nominating & Governance Committee (or, if he or she is not disinterested,

by the Presiding Director).

If the transaction involves a related person who is a Director or an immediate family member of a Director, that Director may not participate in the deliberations or vote. In approving or ratifying a transaction under this policy, the Board, the committee or Director considering the matter must determine that the transaction is fair and reasonable to the Company.

A printable version of this written policy is available on our Web site, as described on page 5.

Our Code of Ethics applicable to Directors discourages Directors from engaging in transactions that present a conflict of interest or the appearance of one. Our Business Ethics Policy applicable to employees, including executive officers and others who may be related persons similarly discourages transactions where there is or could be an appearance of a conflict of interest. In addition, that policy requires specific approval by designated members of management of transactions involving the Company and in which employees have an interest. Specifically, an

employee s retention for the provision of goods or services to the Company of any business in which he or she has an interest must be approved by the employee s supervisor, and an employee s direct or indirect financial interest in a business enterprise that does business with the Company must be approved by or on behalf of the President/Chief Executive Officer of that employee s operating unit. There are exceptions for small holdings in public companies.

These provisions of the Code of Ethics applicable to Directors and the Company s Business Ethics Policy are intended to operate in addition to, and independently of, the policy on transactions with related persons described above.

See Interests of Related Persons in Certain Transactions of the Company for a description of transactions between the Company and related persons in 2009 and 2010 through the date of this Proxy Statement.

## Board Meetings and Attendance

**Board Meetings in 2009:** Six

**Board Committees:** Four Standing Committees: Audit, Compensation, Finance and Nominating & Governance. See Board Committees for Committee descriptions and membership. Due to the suspension of certain activities of The New York Times Company Foundation, the Board determined in February 2010 to dissolve the Foundation Committee. Certain remaining responsibilities of the Foundation Committee were assumed by the Finance Committee.

**Total Committee Meetings in 2009:** 22

**2009 Attendance:** All incumbent Directors attended 75% or more of the total Board and Committee meetings on which they served.

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## Board Committees

| Name of Committee and Members | Principal Functions of the Committee | Meetings in 2009 |
|---|---|---|
| **Audit**<br>Raul E. Cesan, Chair<br>Robert E. Denham<br>David E. Liddle<br>Doreen A. Toben | Engages the Company s independent auditors, subject to ratification by the stockholders, and receives periodic reports from the auditors and management regarding the auditors independence and other matters. Recommends appropriate action to ensure the auditors independence.<br>Reviews with management and the independent auditors the Company s quarterly and annual financial statements and other financial disclosures, the adequacy of internal controls and major issues regarding accounting principles and practices, including any changes resulting from amendments to SEC or Financial Accounting Standards Board rules.<br>Meets regularly with the Company s senior internal audit executive, representatives of management and the independent auditors in separate executive sessions.<br>Reviews and approves the scope of the audit at the outset and reviews the performance of the independent auditors and any audit problems or difficulties encountered.<br>Reviews the Company s risk assessment and risk management policies.<br>Reviews the organization, resources and competence of the Company s internal audit department. Prepares the report to stockholders included in the annual Proxy Statement. | 6 |
| **Compensation**<br>David E. Liddle, Chair<br>James A. Kohlberg<br>Dawn G. Lepore<br>Ellen R. Marram<br>Thomas Middelhoff | Approves compensation arrangements for the Company s executive officers other than the Chairman, the Chief Executive Officer and the Vice Chairman, including base salaries, salary increases, incentive compensation plans and awards. Reviews the reasonableness and appropriateness of all such compensation.<br>In consultation with all non-employee Directors, annually evaluates the performance of the Chairman, the Chief Executive Officer and the Vice Chairman and, together with the other independent Directors, approves their compensation arrangements.<br>Adopts and oversees the administration of incentive compensation and executive stock plans and determines awards granted to executive officers under such plans.<br>Advises the Board on the reasonableness and appropriateness of executive compensation plans and levels generally, including whether these effectively serve the interests of the Company and its stockholders by creating appropriate incentives for high levels of individual and Company performance.<br>Appoints the ERISA Management Committee, which oversees administration of the Company s health, benefit and savings plans and which reports to the Compensation Committee once a year.<br>Has sole authority to engage an executive compensation consultant.<br>Reviews and discusses the Compensation Discussion and Analysis with management and prepares a report to stockholders stating that it has recommended that it be included in the annual Proxy Statement. | 6 |
| **Nominating & Governance**<br>Robert E. Denham, Chair<br>Scott Galloway<br>Ellen R. Marram | Makes recommendations to the Board regarding the composition of the Board and its Committees, including size and qualifications for membership.<br>Recommends candidates to the Board for election to the Board at the Annual Meeting.<br>Advises the Board on appropriate compensation for outside directors.<br>Advises the Board on corporate governance matters.<br>Oversees periodic evaluation of the Board.<br>Has sole authority to engage a search firm to identify director candidates. | 3 |

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| Name of Committee and Members | Principal Functions of the Committee | Meetings in 2009 |
|---|---|---|
| **Finance**<br><br>Ellen R. Marram, Chair<br><br>Raul E. Cesan<br><br>Daniel H. Cohen<br><br>Lynn G. Dolnick<br><br>Dawn G. Lepore<br><br>Thomas Middelhoff | Reviews the Company s financial policies, including, without limitation, dividend policy, investment of cash, stock repurchase, short-and long-term financing, foreign currency, hedging and derivative transactions, material acquisitions and dispositions and capital expenditures.<br>Establishes (and adjusts from time to time) investment policies for the Company s retirement and savings plans.<br>Appoints the Pension Investment Committee, which appoints and reviews the performance of the trustees and investment managers for the Company s retirement and savings plans and which reports to the Finance Committee from time to time.<br>Reviews and makes recommendations to the Board with respect to the Company s contributions to The New York Times Company Foundation. | 6 |

**Nominating & Governance Committee**

Our Nominating & Governance Committee consists of three non-employee Directors, Robert E. Denham, Chair, Scott Galloway and Ellen R. Marram. Our Board has determined that each Committee member is independent under the corporate governance listing standards of the NYSE.

Effective November 20, 2009, our former director, William E. Kennard, who served as Chair of the Committee, resigned from our Board and the Committee upon the confirmation of his nomination to serve as Representative of the United States of America to the European Union, with the rank of Ambassador. Effective upon his resignation, our Board of Directors appointed Mr. Denham Chair of the Committee.

The Committee operates under a written charter adopted by the Board of Directors. The principal functions of the Committee include making recommendations to the Board regarding the composition of the Board and its Committees, including size and qualifications for membership, recommending nominees to the Board for election and advising the Board on corporate governance matters. The chart set forth in Board Committees describes the principal functions of the Committee under its charter. A printable version of the charter is available on our Web site, as described on page 5.

Whenever a vacancy exists on the Board due to expansion of the Board s size or the need to replace a resigning or retiring Director, the Committee begins a process of identifying and evaluating potential Director nominees. The Committee considers recommendations of management, stockholders and others. The Committee has sole authority to retain and terminate any search firm to be used to identify Director candidates, including approving its fees and other retention terms. In this regard, from time to time the Committee has retained a global executive recruiting firm, whose function is to bring specific Director candidates to the attention of the Committee. As discussed elsewhere in this Proxy Statement, the 1997 Trust, as holder of a majority of our Class B stock, has the right to elect 70% of our Board. The Committee considers, among other potential nominees, recommendations of the trustees of the 1997 Trust for nominees to be elected by the holders of the Class B stock. Carolyn D. Greenspon, who is a Director nominee for election by the holders of Class B stock, was brought to the attention of the Committee by the trustees of the 1997 Trust. Ms. Greenspon is herself one of the trustees and a fifth-generation member of the Ochs-Sulzberger family.

As noted, the Committee will consider Director candidates recommended by stockholders. Stockholders wishing to recommend Director candidates for consideration by the Committee may do so by writing to the Senior Vice President, General Counsel & Secretary, giving the recommended nominee s name, biographical data and qualifications, accompanied by the written consent of the recommended nominee.

Consistent with the Company s Corporate Governance Principles, the Committee considers various criteria in Board candidates, including, among others, independence, character, judgment and business experience, as well as their appreciation of the Company s core purpose, core

values and journalistic mission, and whether they have time available to devote to Board activities.

In addition, pursuant to the Company s Corporate Governance Principles, the Committee considers as one factor among many the diversity of Board candidates, which may include diversity of skills and experience as well as geographic, gender, age, and ethnic diversity. The Committee does not, however, have a formal policy with regard to the consideration of diversity in identifying Board candidates.

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The Committee also considers whether a potential nominee would satisfy:

- the NYSE s criteria of director independence ;
- the NYSE s financial literacy and financial management expertise standards; and
- the SEC s definition of audit committee financial expert.

Director candidates are evaluated in light of the then-existing composition of the Board, including its overall size, structure, backgrounds and areas of expertise of existing Directors and the relative mix of independent and management Directors. The Committee also considers the specific needs of the various Board committees. The Committee recommends potential Director nominees to the Board, and final approval of a candidate is determined by the Board. This evaluation process is the same for Director nominees who are recommended by our stockholders.

Ms. Greenspon first met with the Presiding Director and Chair of the Committee, who then recommended that the Committee recommend to the Board that she be a Director nominee at the 2010 Annual Meeting.

## Compensation Committee

**Compensation Committee Procedures**

Our Board of Directors has established a Compensation Committee and charged it with the responsibility to review and either act on behalf of the Board or make recommendations to the Board concerning executive compensation and employee benefits. The Compensation Committee consists of the following individuals:

David E. Liddle, Chair

James A. Kohlberg

Dawn G. Lepore

Ellen R. Marram

Thomas Middelhoff

Our Board has determined that each Committee member is independent under the corporate governance listing standards of the NYSE.

The Committee operates under a written charter adopted by the Board of Directors. A printable version of the charter is available on our Web site, as described on page 5. The chart set forth in Board Committees describes the principal functions of the Committee under its charter, as well as the number of its meetings in 2009.

Together with the other non-employee members of the Board, the Committee evaluates the performance of our Chairman, Chief Executive Officer, and Vice Chairman and together with the other independent Directors approves their compensation. In addition, the Committee

approves all compensation for our other executive officers and discusses with management in general terms the compensation of non-executive employees.

In the past, the Committee has delegated, and may in the future on an annual basis delegate, the authority to make option and other equity grants in limited circumstances, such as to newly hired or recently promoted employees, to a three-member management committee authorized to grant a limited number of options and other equity awards under specified parameters. To ensure compliance with its longstanding procedures, the Committee has adopted a written grant policy.

Under its charter, the Committee has sole authority to retain and terminate a consulting firm to assist in its evaluation of executive compensation. In accordance with this authority, in 2009, it directly engaged an independent compensation consultant, Exequity LLP. Exequity reported on its review of data from nationally recognized compensation surveys. The review analyzed salary, annual and long-term cash incentive bonuses and equity compensation, as well as total compensation, for comparable executive positions at a comparative group of companies that includes traditional newspaper companies, other print publishing companies, news and information companies, and a selection of similarly-sized general industry companies and, for operating unit positions, at other comparable media companies. Exequity also provided general advice on executive compensation trends and programs and made compensation recommendations for our Chairman and Chief Executive Officer. In the course of advising the Committee, Exequity occasionally is asked to provide guidance and support to management in connection with matters that are reviewed by the Committee. These matters may pertain to, among other things, competitive analysis, program design recommendations, technical support and cost modeling. Exequity also supplied consulting services to the Committee in connection with the design and preparation of the 2010 Incentive Plan, including evaluating the plan against RiskMetrics proxy voting guidelines. Exequity has not provided any services to the Company, other than those relating to its role as compensation adviser to the Committee, during the Company s 2009 fiscal year.

The Committee generally consults with management regarding executive compensation matters, and our Chief Executive Officer makes compensation recommendations for executive officers, excluding herself and our Chairman. The Company s human resources department supports the Committee in its work.

Throughout the year, the Committee meets to discuss the Company s executive compensation program and related matters. In February of each year, the Committee generally takes the following actions:

- sets salaries for the year;
- sets annual bonus potentials and the related financial targets for the year;
- sets award potentials and the financial targets and performance period for the upcoming long-term performance cycle; and
- awards equity-based compensation.

In addition, each February, the Committee meets to certify the achievement of performance goals for the recently completed year and long-term cycles and approve the payment of the annual bonuses and long-term performance awards. Other meetings are scheduled throughout the year as the Committee deems appropriate.

In February 2010, the Committee reviewed and recommended to the Board of Directors for approval the 2010 Incentive Plan. See Proposal No. 2 Adoption of The New York Times Company 2010 Incentive Compensation Plan.

The Committee has reviewed and discussed with Company management the section of this Proxy Statement titled Compensation Discussion and Analysis, and its report to stockholders stating that it has recommended the inclusion of such discussion and analysis appears below under Compensation of Executive Officers on page 38.

**Compensation Committee Interlocks and Insider Participation**

No member of the Committee is now, or was during 2009 or any time prior thereto, an officer or employee of the Company. No member of the Committee had any relationship with the Company during 2009 pursuant to which disclosure would be required under applicable SEC rules pertaining to the disclosure of transactions with related persons. None of our executive officers currently serves or ever has served as a member of the board of directors, the compensation committee, or any similar body, of any entity one of whose executive officers serves or served on our Board or the Committee.

## Audit Committee Report

To the Stockholders of The New York Times Company:

The Audit Committee consists of four non-employee Directors, Raul E. Cesan, Chair, Robert E. Denham, David E. Liddle and Doreen A. Toben. The Board of Directors has determined that:

- each Committee member is independent under the corporate governance listing standards of the NYSE and is financially literate as defined by the NYSE;

each Committee member satisfies the financial management expertise standard, as required by the NYSE; and

each Committee member, including the Chair of the Committee, is an audit committee financial expert as defined by the SEC.

The Committee operates under a written charter adopted by the Board of Directors. A printable version of the charter is available on our Web site, as described on page 5.

Management has the primary responsibility for the financial statements and the financial reporting process, including the system of internal control over financial reporting. The Company s independent registered public accounting firm is responsible for performing an independent integrated audit of (i) the Company s consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States) and (ii) the Company s internal control over financial reporting, and for issuing their reports thereon. The Committee is responsible for assisting the Board in monitoring:

the integrity of the Company s financial statements;

the Company s compliance with legal and regulatory requirements;

the Company s internal control over financial reporting;

the Company s independent registered public accounting firm s qualifications and independence; and

the performance of the Company s internal audit function and independent registered public accounting firm.

In addition, the Committee has established procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by Company employees of concerns regarding accounting or auditing matters.

During 2009, the Committee met six times and held separate discussions with management, the Company s internal auditors and the Company s independent registered public accounting firm, Ernst & Young LLP ( Ernst & Young ). The Committee s Chair, as representative of the Committee, discussed the Company s interim financial information contained in each quarterly earnings announcement with the Company s Chief Financial Officer

and/or Controller and Ernst & Young prior to public release. Each other member of the Committee also generally participated in this discussion. The full Committee reviews the Company s quarterly financial statements with management and Ernst & Young. In addition, the Committee reviewed and discussed the Company s compliance with the requirements of the Sarbanes-Oxley Act of 2002 with respect to internal control over financial reporting.

Management has represented to the Committee that the Company s 2009 annual consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The Committee reviewed and discussed with management and Ernst & Young the Company s 2009 annual consolidated financial statements and Ernst & Young s audit report thereon and Ernst & Young s audit report on the effectiveness of the Company s internal control over financial reporting. In addition, the Committee reviewed and discussed with management the annual report of management on the Company s internal control over financial reporting. The Committee has also discussed the following with Ernst & Young:

- the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees), which include, among other items, matters related to the conduct of the audit of the Company s 2009 annual consolidated financial statements;

- the critical accounting policies and practices used in the preparation of the Company s 2009 annual consolidated financial statements, alternative treatments of financial information within accounting principles generally accepted in the United States of America that Ernst & Young discussed with management, the ramifications of using such alternative treatments, and the treatment preferred by Ernst & Young; and

- other material written communications between Ernst & Young and management.

In addition, the Committee has received and reviewed the written disclosures and the letter from Ernst & Young required by applicable requirements of the Public Company Accounting Oversight Board regarding Ernst & Young s communications with the Committee concerning independence, and has discussed with Ernst & Young their firm s independence from the Company and management, including all relationships between the firm and the Company. As part of its role of monitoring Ernst & Young s independence, the Committee has adopted a Policy on Auditor Independence and Non-Audit Services (which, among other things, requires management and the Committee to consider whether Ernst & Young s provision of any non-audit services would impair Ernst & Young s independence) and a Policy on Hiring Current or Former Employees of the Company s or Plan s Independent Auditors. Both of these policies are available at http://www.nytco.com.

In addition, the Committee obtains and reviews annually a report by Ernst & Young describing:

- the firm s internal quality-control procedures; and

- any material issues raised by (i) the most recent internal quality-control review (or peer review) of the firm, or (ii) any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

The Committee discussed with the Company s internal auditors and Ernst & Young the overall scope and plans for their respective audits. The Committee met with the internal auditors and Ernst & Young, with and without management present, to discuss the results of their respective audits, the evaluations of the Company s internal control over financial reporting, and the overall quality of the Company s financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, that the audited consolidated financial statements be included in the Company s Annual Report on Form 10-K for the fiscal year ended December 27, 2009, for filing with the SEC.

The Committee also has recommended, subject to stockholder ratification, the selection of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 26, 2010.

Raul E. Cesan, Chair

Robert E. Denham

David E. Liddle

Doreen A. Toben

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## Directors Compensation

**2009 Compensation of Non-Employee Directors**

Compensation for our non-employee Directors for 2009 consisted of: cash compensation in the form of an annual retainer for all Board members, Committee Chairs and Committee members and the Presiding Director; and equity compensation, consisting of a grant of phantom Class A stock units and options to purchase Class A stock.

Our goal in setting compensation for our non-employee Directors is to remain competitive in attracting and retaining high quality Directors. We also recognize that over the past few years, there has been an increase in board responsibilities and potential liability.

Our Nominating & Governance Committee annually reviews and makes recommendations to the Board with respect to the compensation for non-employee Directors. Each year, management reports to the Nominating & Governance Committee on non-employee Director compensation at comparable companies and makes recommendations with respect to the amount and form of compensation for non-employee Directors.

Based on such review, our Nominating & Governance Committee recommended to the Board and the Board unanimously agreed, effective January 1, 2009, to a 5% reduction in the cash compensation payable to non-employee Directors in order to reduce our cost structure and operating expenses. This reduction was generally in line with a salary reduction approved for our nonunion employees, including our executive officers. In 2010, cash compensation payable to non-employee Directors was reinstated to levels paid in 2008.

Each of the current components of our non-employee Director compensation is described in more detail below.

**Cash Compensation:** In 2009, we paid an annual retainer to all Board members, Committee Chairs and Committee members as follows:

- Annual cash Board retainer of $42,750;
- Annual cash Committee Chair retainer of $9,500;
- Annual cash Committee retainers in the following amounts:
  - Audit $19,000
  - Compensation $9,500
  - Finance $9,500

| | |
|---|---|
| Nominating & Governance | $5,700 |
| Foundation | $2,850 |

The Presiding Director received an additional $9,500 annual retainer.

**Non-Employee Directors Deferral Plan:** The Company s Non-Employee Directors Deferral Plan allows our non-employee Directors to defer the receipt of a portion of their cash compensation. We credit deferred amounts to a cash account or a phantom Class A stock unit account, as elected by the Director. Amounts deferred as phantom Class A stock are initially held as cash and are converted to phantom stock units as of the date of our next succeeding Annual Meeting. Cash accounts are credited with interest at a market rate. Phantom Class A stock unit accounts are credited with dividend equivalents. Subsequent to a non-employee Director s retirement, we pay him or her the cash value of amounts accumulated in his or her account.

**Phantom Stock Units:** Under the Company s Non-Employee Directors Deferral Plan, a discretionary grant of phantom stock units worth $35,000 was credited to each non-employee Director s account on the date of the 2009 Annual Meeting. The number of phantom stock units credited was based on the average closing price of a share of Class A stock for the 30 trading days prior to the date of the 2009 Annual Meeting. It is anticipated that a similar grant will be made on the date of the 2010 Annual Meeting.

**Stock Options:** Our Board s longstanding practice is to award stock options annually to our non-employee Directors, on the date of the Annual Meeting under our 2004 Non-Employee Directors Stock Incentive Plan (the Directors Plan ). The option exercise price for those awards is set at the average of the high and low stock prices as quoted on the NYSE on the date of the Annual Meeting. Options vest on the date of the next succeeding Annual Meeting and have a term of 10 years from the date of grant.

In 2009, options to purchase 4,000 shares of our Class A stock were granted to non-employee Directors under the Directors Plan. It is anticipated that a similar grant will be made on the date of the 2010 Annual Meeting.

**Matching Gifts Program:** Through our foundation, The New York Times Company Foundation, we matched 100% of charitable contributions made by Directors prior to May 22, 2009, to colleges, schools, cultural, journalism or environmental organizations, up to a maximum contribution of $3,000 per person per year. We also matched charitable contributions of retired Directors. This matching gifts program was suspended as of May 22, 2009.

**Expenses:** We reimburse reasonable expenses incurred for attendance at Board and Committee meetings.

**Non-Employee Director Compensation Table**

The total 2009 compensation of our non-employee Directors is shown in the following table. Mr. Kennard stepped down from the Board effective November 20, 2009. The table includes his compensation for the period through that date.

| (a)<br>Name | (b)<br>Fees Earned or Paid in Cash[1] ($) | (c)<br>Stock Awards[2,3] ($) | (d)<br>Option Awards[4,5] ($) | (g)<br>All Other Compensation[6] ($) | (h)<br>Total ($) |
|---|---|---|---|---|---|
| Raul E. Cesan | 80,750 | 35,000 | 6,840 | 172 | 122,762 |
| Daniel H. Cohen | 52,250 | 35,000 | 6,840 | 472 | 94,562 |
| Robert E. Denham | 68,365 | 35,000 | 6,840 | 3,172 | 113,377 |
| Lynn G. Dolnick | 64,600 | 35,000 | 6,840 | 172 | 106,612 |
| Scott Galloway | 48,450 | 35,000 | 6,840 | 6,172 | 96,462 |
| William E. Kennard | 60,955 | 35,000 | 0 | 15,837 | 117,792 |
| James A. Kohlberg | 52,250 | 35,000 | 6,840 | 172 | 94,262 |
| Dawn G. Lepore | 61,750 | 35,000 | 6,840 | 172 | 103,762 |
| David E. Liddle | 80,750 | 35,000 | 6,840 | 172 | 122,762 |
| Ellen R. Marram | 86,450 | 35,000 | 6,840 | 172 | 128,462 |
| Thomas Middelhoff | 61,750 | 35,000 | 6,840 | 172 | 103,762 |
| Doreen A. Toben | 64,600 | 35,000 | 6,840 | 172 | 106,612 |

1. Includes a Presiding Director retainer for Ms. Marram and a Committee Chair retainer for each of Messrs. Cesan, Denham and Kennard, Ms. Dolnick, Dr. Liddle and Ms. Marram. Mr. Denham succeeded Mr. Kennard as Chair of the Nominating & Governance Committee on November 20, 2009. We apportioned the $9,500 Committee Chair retainer between them based on the time they served as Chair. Ms. Dolnick served as the Chair of the Foundation Committee in 2009. Messrs. Cesan and Kennard and Ms. Toben elected to defer their cash compensation in the form of phantom stock units under the Company s Non-Employee Directors Deferral Plan.

2. In accordance with recently adopted amendments to the SEC s proxy disclosure rules, included in the Stock Awards column is the aggregate grant date fair value of the discretionary grant of phantom stock units made to each non-employee Director on April 23, 2009, under the Company s Non-Employee Directors Deferral Plan, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation ( FASB ASC Topic 718 ) (formerly, Statement of Financial Accounting Standards No. 123 (Revised), Share-Based Payment). The grant date fair value of such awards is estimated as $35,000.

3. The following table shows the aggregate phantom stock units outstanding at December 27, 2009:

| Name | Aggregate Phantom Stock Units Outstanding at December 27, 2009 (#) |
|---|---|
| Raul E. Cesan | 53,925 |
| Daniel H. Cohen | 10,869 |
| Robert E. Denham | 9,164 |
| Lynn G. Dolnick | 13,529 |
| Scott Galloway | 9,164 |
| William E. Kennard | 45,567 |
| James A. Kohlberg | 9,164 |

| | |
|---|---|
| Dawn G. Lepore | 9,164 |
| David E. Liddle | 13,529 |
| Ellen R. Marram | 26,381 |
| Thomas Middelhoff | 13,529 |
| Doreen A. Toben | 40,119 |

4. On April 23, 2009, non-employee Directors received options to acquire 4,000 shares of Class A stock at an exercise price of $4.92 (the average of the high and low stock prices on the NYSE on the date of the grant under the Directors Plan). The amounts included in the table above consist of the aggregate grant date fair value of the stock options, computed in accordance with FASB ASC Topic 718. The grant date fair value of such awards is $1.71 per option. This presentation reflects a change from prior year proxy statements where the amounts included in this column reflected the compensation expense recognized in the fiscal year related to all outstanding stock options. For a discussion of the assumptions used in calculating the valuation, see Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 16 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 27, 2009. The actual amount ultimately realized by a Director from the stock options will vary depending on, among other items, stock price fluctuations and the timing of exercise.

5. The following table shows outstanding stock option awards as of December 27, 2009. The exercise prices of the stock options range from $4.92 to $46.945.

| Name | Number of Securities Underlying Unexercised Options (#) Exercisable/ Unexercisable | In-the-money Amount of Unexercised Options ($) Exercisable/ Unexercisable[(a)] |
|---|---|---|
| Raul E. Cesan | 36,000/4,000 | 0/4,000 |
| Daniel H. Cohen | 8,000/4,000 | 0/4,000 |
| Robert E. Denham | 4,000/4,000 | 0/4,000 |
| Lynn G. Dolnick | 16,000/4,000 | 0/4,000 |
| Scott Galloway | 4,000/4,000 | 0/4,000 |
| William E. Kennard | 27,000/0 | 0/0 |
| James A. Kohlberg | 4,000/4,000 | 0/4,000 |
| Dawn G. Lepore | 4,000/4,000 | 0/4,000 |
| David E. Liddle | 36,000/4,000 | 0/4,000 |
| Ellen R. Marram | 36,000/4,000 | 0/4,000 |
| Thomas Middelhoff | 20,000/4,000 | 0/4,000 |
| Doreen A. Toben | 20,000/4,000 | 0/4,000 |

(a) The closing price of the underlying Class A stock on the NYSE on December 24, 2009 ($12.16), the last trading day of our 2009 fiscal year, minus the option exercise price.

6. The values include matching gifts on charitable contributions made prior to May 22, 2009 (see Matching Gifts Program ) in the amount of: (i) $300 for Mr. Cohen, (ii) $3,000 for Mr. Denham for a gift made in 2008 and matched by the Company in 2009, (iii) $6,000 for Mr. Galloway, of which $3,000 was for a gift made in 2008 and matched by the Company in 2009, and (iv) $4,000 for Mr. Kennard, of which $1,000 was for a gift made in 2008 and matched by the Company in 2009. The amount included for Mr. Kennard also includes a one-time $10,000 donation made in his honor to a university upon his departure from the Board.

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## Directors and Officers Liability Insurance

The Company maintains directors and officers liability insurance effective May 1, 2009, with an expiration date of May 1, 2010. This is part of our combined coverage, which was purchased at an annual cost of $1,679,375. The insurance companies providing directors and officers liability insurance are Ace American Insurance Company, Allied World Assurance Company, Carolina Casualty Insurance Company, Endurance American Insurance Company, Great American Insurance Company, Liberty Mutual Insurance Company, St. Paul Mercury Insurance Company and Zurich American Insurance Company.

## Compensation of Executive Officers

### Compensation Committee Report

The Compensation Committee has reviewed and discussed with Company management the Compensation Discussion and Analysis appearing below, and based on such review and discussions, the Committee has recommended to the Board that such Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference into the Company s 2009 Annual Report on Form 10-K.

David E. Liddle, Chair

James A. Kohlberg

Dawn G. Lepore

Ellen R. Marram

Thomas Middelhoff

### Compensation Discussion and Analysis

We believe that our executive officers are critical to our success and to the creation of long-term stockholder value. We structure compensation for our executive officers based on the following objectives:

- to enable us to attract, retain and motivate the highest caliber of executives by offering competitive compensation and rewarding superior performance;

- to drive performance through the achievement of short-term and long-term objectives; and

to link our executives total compensation to the interests of our stockholders.

The following discussion analyzes 2009 executive compensation for those executive officers identified in the Summary Compensation Table, whom we refer to as our named executive officers.

Our named executive officers include our President and Chief Executive Officer, our Chief Financial Officer, and the three other most highly compensated executive officers based on total compensation, which is calculated under SEC regulations. For 2009, these are:

Arthur Sulzberger, Jr., Chairman of the Board and Publisher, The New York Times;

Janet L. Robinson, President and Chief Executive Officer;

Michael Golden, Vice Chairman, and President and Chief Operating Officer, Regional Media Group;

James M. Follo, Senior Vice President and Chief Financial Officer; and

P. Steven Ainsley, Publisher, The Boston Globe. (Mr. Ainsley retired effective December 31, 2009.)

**Overview**

Our annual cash and long-term incentive programs are designed to link the compensation of our named executive officers to the overall success of the Company and further our longstanding compensation principles of supporting the Company s business strategy and performance. Our 2009 results reflected the difficult economic environment we faced during the year. The effect of the global economic downturn, coupled with the secular changes affecting newspapers, resulted in significant revenue declines as advertisers pulled back on print placements in all categories.

However, in 2009, we accomplished many of the goals that we believe are critical to the success of our long-term strategy. As the advertising marketplace, particularly in print, changes, we have continued to explore payment models as well as other approaches to generate revenues from our online content, and in January 2010, we announced that we would introduce a paid model for NYTimes.com at the beginning of 2011 to create a second revenue stream while preserving NYTimes.com s robust advertising business. In addition, we continue to evaluate our circulation pricing models at all our properties and in 2009 increased prices for subscription and newsstand copies of The Times and the Globe. Our circulation revenues increased 2.9% in 2009 compared with 2008, due to higher prices.

We have also continued our multi-year drive to reduce expenses. In 2009, our operating costs declined approximately $475 million, or 17%, compared with 2008, with reductions in nearly all major expense categories, including wages and benefits, the single largest expense category.

We also undertook a major restructuring effort at the New England Media Group, which includes the Globe, the Worcester Telegram & Gazette and their Web sites. To address the secular and cyclical forces affecting these properties, we developed a strategic plan that included the consolidation of the Globe s printing facilities, circulation price increases, compensation and headcount reductions and extensive negotiations with the Globe s unions on various cost-cutting measures. In the second and third quarters of 2009, employees of the Globe represented by various unions ratified amendments to their collective bargaining agreements.

Finally, debt restructuring has been a key area of strategic focus. We have made significant progress in lowering our total debt level through cash flow from operations, divestiture activities, suspension of dividend payments and other actions. Our total debt level at year-end 2009 decreased to $769 million from $1.1 billion at the end of 2008.

Detailed disclosure of our 2009 financial results appears in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the fiscal year ended December 27, 2009. It is within this context that the Compensation Committee analyzed compensation programs for 2009. Tables comparing our 2009 target and actual compensation appear on pages 48-49.

***2009-2010 Key Compensation Highlights***

In 2009 and 2010, the key highlights with respect to the Company s executive compensation program were as follows:

**Salaries:** Base salaries for executives were reduced by 5% from April 1, 2009, through December 31, 2009. See Executive Compensation Salaries. In 2010, salary levels largely remained frozen at 2006-2008 levels.

**Annual Bonuses:** Annual bonuses for 2009 were payable on achievement of a performance goal based on EBITDA, which was exceeded, resulting in a potential payout at 185% of target. However, in response to a recommendation by management, the Committee exercised its discretion to make downward adjustments resulting in a reduced payout of 128% of target. See Executive Compensation Annual Bonuses.

**Long-Term Performance Awards:** Long-term performance compensation for 2009 was anomalous because, due to the Company s previous change from five-year to three-year performance cycles, two separate long-term performance cycles ended in 2009. The first, a five-year cycle set in 2004, based on total stockholder return relative to a group of peer companies resulted in a payout of 137.5% of target. The second, a three-year cycle set in 2007, was based on revenue/expense management and return on invested capital goals, weighted equally. The revenue/expense management target was not achieved at the targeted levels, as significant expense reduction did not offset advertising revenue declines. Achievement against the return on invested capital metric, which is measured by reference to operating profit per dollar of average invested capital, was also adversely affected by lower advertising revenues and resulting operating profit declines. Accordingly, no payout was made for this cycle. Prior to 2009, no long-term performance cycle had generated a payment since 2003.

**Tax Reimbursements:** In March 2009, the Company determined that it would no longer pay or reimburse its executive officers for the amount of income and Medicare taxes owed by them in respect of regularly provided perquisites and benefits.

**Retirement Benefits:** In November 2009, the Company amended The New York Times Companies Pension Plan (the Pension Plan ), our nonunion pension plan, to freeze benefits as of December 31, 2009. In connection with this action, the Company also froze The New York Times Companies Supplemental Executive Retirement Plan (the SERP ), a non-qualified defined benefit plan that provides enhanced retirement benefits to select members of management. At the same time, the Company added an employer-paid non-elective contribution under the Company 401(k) Plan and approved the adoption of two unfunded supplemental defined contribution plans for executives. See Executive Compensation Other Elements of Executive Compensation for a description of these changes and new plans.

**Proposed Incentive Plan:** In February 2010, the Committee approved the 2010 Incentive Plan, which is intended to replace the current NYT Stock Plan and 1991 Executive Cash Bonus Plan, each of which will expire at the end of 2010. Adoption of the 2010 Incentive Plan must be approved by the stockholders of the Company at the 2010 Annual Meeting. The 2010 Incentive Plan will enable the Committee to provide compensation for executives comparable to that now provided under the existing plans. See Proposal 2 Adoption of The New York Times Company 2010 Incentive Compensation Plan.

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***Compensation-Setting Process***

*Role of Board, Compensation Committee and Executive Officers*

The Compensation Committee, which consists solely of independent directors, is primarily responsible for overseeing compensation for our executive officers, including the named executive officers. The Committee approves annually the compensation for the Company s executive officers other than the Chairman, Chief Executive Officer and Vice Chairman. With respect to these three officers, the Committee makes compensation recommendations to the independent members of our Board of Directors. The independent directors consult with the other non-employee Directors, but the final compensation decision is theirs.

The Committee generally consults with management regarding employee compensation matters, and our Chief Executive Officer reports on the performance of, and makes compensation recommendations for, executive officers other than herself and our Chairman. In developing recommendations, the Chief Executive Officer consults with the Chairman and the head of the human resources department. In addition, our human resources, legal, controllers and treasury departments support the Committee in its work and help administer our compensation programs. The Committee s independent compensation consultant, Exequity LLP, advises on executive compensation matters and provides compensation recommendations for our Chairman and Chief Executive Officer. In addition, the members of the Committee familiarize themselves with compensation trends and competitive conditions through periodic consultations with compensation experts, including Exequity, and the review of market data and other information about relevant market practices.

The table below summarizes our compensation recommendation and approval process:

| Name | Compensation Recommendations Made By: | Compensation Approved By: |
|---|---|---|
| Arthur Sulzberger, Jr. | Compensation Committee, after consultation with Exequity | Independent Board members after consultation with non-employee Directors |
| Janet L. Robinson | Compensation Committee, after consultation with Exequity | Independent Board members after consultation with non-employee Directors |
| Michael Golden | CEO/Compensation Committee | Independent Board members after consultation with non-employee Directors |
| James M. Follo | CEO | Compensation Committee |
| P. Steven Ainsley | CEO | Compensation Committee |

A discussion of the composition and procedures of the Committee, including the role of Exequity, is set forth above under Compensation Committee Compensation Committee Procedures.

***Components of Compensation***

To achieve our compensation objectives, we rely on the following compensation components, each of which is discussed in more detail below:

| Pay Component | Structure and Intended Purpose |
|---|---|
| **Fixed** | |
| *Salary* | Fixed cash component designed to compensate individual for responsibility level of position held. |
| **Variable** | |
| *Annual performance-based cash awards* | Variable cash component of pay designed to motivate and reward individual s contributions to the achievement of short-term objectives by linking compensation to important annual financial, operating and individual performance measures set by the Committee in advance. Target payout is set as a percentage of salary, with higher percentages for individuals with greater responsibility.<br><br>As discussed below under Performance Targets, financial targets for the annual performance awards are based on EBITDA, and are derived from the operating budget developed by management and reviewed and discussed with the Board of Directors. |
| *Long-term incentive compensation, including performance-based cash awards and equity incentives in the form of stock options and restricted stock units* | Performance-based cash awards designed to reinforce the relationship between pay and performance by linking compensation to the achievement of important long-term financial performance measures set by the Committee in advance. Target payout is set as a specific amount, with higher targets for individuals with greater responsibility.<br><br>Targets set in 2009 were based on return on invested capital and operating cash flow margin and were derived from the three-year plan developed by management and reviewed and discussed with the Board of Directors. See Long-Term Incentive Compensation below for a discussion of the performance targets and payouts under long-term incentive potentials previously set for cycles ended in 2009.<br><br>Stock options designed to focus executives on increasing our Class A stock price over a specified vesting period and option term because the options produce value only if the stock price increases over the exercise price.<br><br>Restricted stock units designed to retain executives by conditioning delivery of the underlying shares of Class A stock, or the cash equivalent, upon completion of a specified vesting period (or upon retirement, death or disability). Restricted stock units also align executives interest with that of our stockholders. In 2010, the size of restricted stock unit grants was tied to the achievement of pre-set 2009 EBITDA targets. |
| **Other benefits** | The SERP, a non-qualified plan designed to provide benefits to a select group of executives that, when added to retirement income provided under other Company plans, will ensure payment of a competitive level of retirement income to these individuals. Benefits accruing under the SERP have been frozen based on eligible earnings through December 31, 2009. In connection with the freezing of the SERP, the Company added an employer-paid non-elective contribution under the Company 401(k) Plan and adopted two unfunded supplemental defined contribution plans for executives. See Executive |

Compensation Other Elements of Executive Compensation for a description of these changes and new plans.

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| Pay Component | Structure and Intended Purpose |
|---|---|
| | A deferred executive compensation plan (the DEC ), which allows executives to defer portions of their salary, annual bonus and long-term performance award. The DEC does not provide for earnings at above-market or preferential rates, and the Company does not make contributions on behalf of participants. |
| | Other employee benefit plans available to substantially all employees, including medical, life insurance and disability plans, a Company match for 401(k) plan contributions and an employee stock purchase plan. |
| | Limited perquisites, including financial planning services and relocation benefits. |

***Key Factors in Setting Compensation***

In setting or recommending the amount of each component of an executive s compensation and considering his or her overall compensation package, the Committee evaluates each of the following factors:

*Benchmarking* Each year, the Committee reviews market data for corporate executives in positions comparable to those of Mr. Sulzberger, Jr., Ms. Robinson and Messrs. Golden and Follo, to the extent available, and operating unit executives in positions comparable to that of Mr. Ainsley. In December 2008, the Committee examined market data on pay practices at 52 U.S. publicly traded companies that included traditional newspaper companies, other print publishing companies, news and information companies of various sizes, and a selection of general industry companies with revenues comparable to the Company s. These companies generated 2008 revenues ranging from approximately $125 million to $17.6 billion, with median revenues of approximately $3.3 billion. Each was a participant in the Towers Perrin Executive Compensation Database, a widely used source of executive compensation information.

| | |
|---|---|
| Advance Publications Inc. | McGraw-Hill Companies, Inc. |
| Allergan, Inc. | Media General, Inc. |
| Battelle Memorial Institute | Meredith Corporation |
| Belo Corp. | Readers Digest |
| Biogen Idec | Reuters America, Inc. |
| Cablevision Systems | Scholastic |
| Cameron International | The Scotts Miracle-Gro Company |
| Charter Comm. | Sonoco Products Company |
| Cooper Standard Automotive | Steelcase Inc. |
| Cooper Tire and Rubber | TAP Pharmaceuticals |

| | |
|---|---|
| Cox Enterprises | The E.W. Scripps Company |
| Cytec Industries, Inc. | The Hearst Corp. |
| Dow Jones & Company, Inc. | The Washington Post Company |
| Foster Wheeler Ltd. | Time Inc. |
| Fox Networks | Time Warner Cable Inc. |
| Gannett Co., Inc. | Tribune Company |
| Google Inc. | Trinity Industries, Inc. |
| Great Plains Energy | United States Cellular Corporation |
| Hasbro, Inc. | Univision Comm. |
| HNA | Viacom Inc. |
| Hospira | Vulcan Materials Company |
| Houghton Mifflin | Wellcare Health Plans |
| IAC/InterActiveCorp. | W.R. Grace & Co. |
| Jarden | Williams-Sonoma, Inc. |
| John Wiley & Sons | Wyndham Worldwide |
| The McClatchy Company | Yahoo! Inc. |

The Committee believes that this group provided an effective comparison because it included a sizable number of direct competitors as well as general industry companies representative of those with which the Company competes for senior executive talent.

The Committee s independent compensation consultant, Exequity, provided information regarding market practices and trends and analyzed compensation data from the selected peer group of companies. In the case of media companies, which were included in the peer group regardless of size, the data was size-adjusted by revenues using regression analysis. The Committee measured the competitiveness of annual salaries for corporate executives against the $50^{th}$ percentile; target total compensation (salary plus target bonus plus the value of long-term incentive awards) was reviewed against the $60^{th}$ percentile.

For operating unit executives, such as Mr. Ainsley, the Committee reviewed pay practices for similarly situated individuals at other media companies based on market data provided by the Towers Perrin CDB Media Industry Survey. Again, the Committee reviewed annual salary targets against the $50^{th}$ percentile and measured target total compensation against the $60^{th}$ percentile.

*Performance* The Committee ties a substantial portion of each named executive officer s total potential compensation to Company and individual performance. All executive officers, including the named executive officers, are eligible for annual cash bonuses and long-term performance cash awards that reinforce the relationship between pay and performance by linking compensation to the achievement of important short- and long-term financial, strategic, operating and individual performance targets set by the Committee in advance based on the Company objectives set out in the operating budget.

The Committee considers the individual performance of each named executive officer by reviewing, among other factors, recommendations of the Chief Executive Officer (insofar as they relate to the named executive officers other than herself and our Chairman), achievement of pre-established individual performance objectives and annual self-assessments. The amount of each component of a named executive officer s compensation is based in part on the Committee s assessment of that individual s performance.

*Internal Pay Equity* The Committee s approach to compensation is that executives holding comparable positions of responsibility should have similar compensation opportunities, adjusted to reflect their responsibilities and role within the Company and recognizing that actual rewards earned should reflect achievement of individual performance objectives.

In setting compensation for 2009, the Committee reviewed tally sheets detailing the total compensation of the named executive officers. These tally sheets identified all components of compensation for these executives, including the compensation such executives would be eligible to receive under different termination scenarios, as described in Potential Payments Upon Termination or Change-in- Control Table. At the conclusion of this review, the Committee concluded that the amounts of compensation to be paid were appropriate and reasonable in light of the factors discussed above.

***Performance Targets***

In setting financial performance targets, the Committee reviews our operating budget for the fiscal year and the most current three-year plan, and sets specific incentive targets that are directly linked to short- or long-term financial performance objectives. Annual operating budgets and three-year plans are developed and submitted to the Board by management annually based on an assessment of the state of the business, the industry and expectations regarding annual and long-term performance. The annual budgets and three-year plans set financial performance objectives that management believes are aggressive but achievable based on the underlying strategic and operating assumptions regarding revenue and cost control initiatives. Typically, the Committee will set a target performance level for a 100% payout at the same level as the relevant objective. While future results cannot be predicted, the Committee believes that these performance targets are set at levels such that achievement of the target levels would require significant effort on the part of the executive officers and that payment of the maximum amounts would occur only upon the achievement of results substantially in excess of internal and market expectations.

Operating budgets and three-year plans are created independent of, and therefore the financial performance targets generally exclude, the effect of specified non-recurring or non-operational events, such as acquisitions and dispositions, changes in accounting rules, the cost of employee buyouts not reflected in our budget, shutdown costs associated with the closure of a business or facility and non-cash impairment charges.

***Executive Compensation***

*Salaries*

Salaries for executive officers are reviewed annually and are intended to provide competitive compensation to each executive based on position, scope of responsibility, business and leadership experience and performance. For 2009, salary levels initially remained unchanged from 2006 levels. However, effective April 2009, the Committee approved a 5% reduction in base salary for executive officers through December 31, 2009. The action was in connection with salary reductions that generally affected the Company s nonunion employees.

In 2010, salary levels for Mr. Sulzberger, Jr. and Ms. Robinson were set at the 2006-2008 levels. Mr. Golden s salary, like that of each employee in the Regional Media Group, was reduced 2.5% from the 2006-2008 levels. Mr. Follo s salary was increased by 5%, to bring his compensation more in line with corporate executives in comparable positions. Salaries for the named executive officers other than Mr. Follo have not been increased since 2006.

*Annual Bonuses*

In February 2009, the Committee set 2009 annual bonus targets for all executives, including the named executive officers, as a percentage of salary based on the results of the annual benchmarking analysis and internal pay equity. Generally, the more responsible the executive officer s position is, the higher the percentage. For the named executive officers, target amounts ranged from 55% to 100% of base salary. Depending on the achievement of the Company and individual goals discussed below, the potential payout for each executive ranged from zero to 200% of the target amount.

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The Committee structured 2009 annual bonuses for corporate executives, including Mr. Sulzberger, Jr., Ms. Robinson, and Messrs. Golden and Follo, to depend 75% on the achievement of annual Companywide financial targets designed to advance our strategy, and 25% on the achievement of individual goals. For operating unit executives, including Mr. Ainsley, 35% of the annual bonus depended on the Companywide targets and 65% depended on individual goals.

For the 2009 awards, the Committee based the financial target portion on EBITDA excluding certain items. For this purpose, EBITDA is computed as operating profit plus depreciation and amortization, net income from joint ventures, and net loss attributable to the noncontrolling interest adjusted to exclude the effect of acquisitions and dispositions, changes in accounting rules, the cost of employee buy-outs not reflected in our budget, shutdown costs associated with the closure of a business or facility, and non-cash impairment charges. The Committee believes that EBITDA, as so adjusted, is a useful measure of our performance for compensation purposes because it facilitates comparisons of our historical operating performance on a consistent basis. In addition, EBITDA is a measure often used by investors, analysts and others and serves to align the interests of our executives and our stockholders.

In setting EBITDA targets, the Committee considered our Companywide strategic and operating plans. Our 2009 budget and, as a result, the performance targets, took into account a projected challenging print advertising environment. The target performance level for a 100% payout was set at the operating budget objectives, with potential payouts ranging from 0 to 200% of target based upon a predetermined performance scale. In 2009, the Company exceeded its EBITDA target, resulting in a potential payout at 185% of target. However, on the recommendation of management, the Committee exercised its discretion to reduce the payout to 128% of target. This was achieved through adjustments resulting in a net reduction of EBITDA. These discretionary adjustments excluded from EBITDA the savings from union and nonunion salary reductions, benefits generally from above-target performance of the New England Media Group, charges and curtailment gains related to various pension actions and miscellaneous other items. The following table reflects the target, the achievement level and potential and actual payout percentages.

| | 2009 Target | 2009 Actual |
|---|---|---|
| | (dollars in thousands) | |
| Company EBITDA, as adjusted | $223,965 | $266,984 |
| Potential payout percentage | 100% | 185% |
| Actual payout percentage (after discretionary adjustments approved by the Committee) | | 128% |

The following table shows the computation of adjusted EBITDA, as defined above, and the further adjustments made for purposes of reducing the amount of the 2009 annual bonuses.

| | (in thousands) |
|---|---|
| Operating profit | $ 74,059 |
| Depreciation and amortization | 133,696 |
| Net income from joint ventures | 20,667 |
| Net loss attributable to the noncontrolling interest (pre-tax) | 54 |
| | 228,476 |
| Pre-approved adjustments to exclude the effect of: | |
| Acquisitions and dispositions, net | (5,124) |
| Changes in accounting rules | 0 |
| Employee buy-outs in excess of budget | 22,229 |
| Shutdown costs associated with the closing of a business or facility | 18,320 |
| Noncash impairment charges | 3,083 |
| Total pre-approved adjustments | 38,508 |

| | | |
|---|---|---|
| EBITDA, as adjusted | | 266,984 |
| Discretionary adjustments approved by the Committee | | (23,919) |
| Final adjusted EBITDA | $ | 243,065 |

As noted above, bonuses depended upon the officer s achievement of individual goals, which are based on the executive s contribution to EBITDA improvement, revenue growth and cost management for the Company and/or the executive s operating unit, customer satisfaction, Company culture and innovation and other factors. Performance relative to target achievement with regard to individual measures was assessed as follows:

| | Individual Performance |
|---|---|
| Arthur Sulzberger, Jr. | 150% |
| Janet L. Robinson | 160% |
| Michael Golden | 135% |
| James M. Follo | 120% |
| P. Steven Ainsley[1] | N/A[1] |

1. In connection with union negotiations at The Boston Globe, all members of New England Media Group management, including Mr. Ainsley, agreed to forgo annual bonuses for 2009.

In making its recommendations for Mr. Sulzberger, Jr. and Ms. Robinson, the Committee assessed their fulfillment of the goals outlined above as well as their execution of the Company s strategic efforts.

The Committee also retained the discretion to increase or decrease the individual component of the total bonus paid to each executive by up to 10% based on the continuing development of a diverse work force, including the inclusion of diverse candidates in hiring processes and the demonstration of personal commitment to diversity through participation in diversity-related activities, such as mentoring and sponsorship of affinity groups. For 2009, an increase of 5% was approved for Mr. Golden. No increase or decrease was made to the annual bonus of any other named executive officer.

The following table illustrates the 2009 annual bonus program as discussed above. For each named executive officer, the table sets out the target, maximum and actual bonus amount, both in dollars and as a percentage of 2009 base salary.

| Name | Minimum ($) | Target ($) (% of base salary) | | Maximum ($) (% of base salary) | | Actual ($) (% of base salary) | |
|---|---|---|---|---|---|---|---|
| Arthur Sulzberger, Jr. | 0 | 1,087,000 | (100%) | 2,174,000 | (200%) | 1,451,145 | (134%) |
| Janet L. Robinson | 0 | 1,000,000 | (100%) | 2,000,000 | (200%) | 1,360,000 | (136%) |
| Michael Golden | 0 | 438,900 | (70%) | 877,800 | (140%) | 576,879 | (92%) |
| James M. Follo | 0 | 264,000 | (55%) | 528,000 | (110%) | 332,640 | (69%) |
| P. Steven Ainsley[1] | 0 | 275,000 | (55%) | 550,000 | (110%) | 0 | |

1. In connection with union negotiations at The Boston Globe, all members of New England Media Group management, including Mr. Ainsley, agreed to forgo annual bonuses for 2009.

In February 2010, the Committee determined to structure 2010 annual cash bonuses for corporate executives based on a similar allocation of 75% for Companywide performance and 25% for individual goals. For operating unit executives, 35% of the annual bonus will continue to depend on the Companywide performance targets and 65% will depend on individual goals. The Committee retains the discretion to increase or decrease the portion of the bonus dependent upon individual goals by up to 10% based on the level of achievement of goals regarding the continuing development of a diverse workforce. Performance targets will again be based on the adjusted EBITDA measure discussed above, further adjusted for 2010 to exclude (i) income/loss from joint ventures and (ii) the effect of changes in newsprint prices not reflected in the budget. The Committee has set specific target amounts for each named executive officer as a percentage of base salary. The grants are designed to result in payouts at target amounts if the Company achieves its 2010 budgeted goals.

*Long-Term Incentive Compensation*

The Committee awards long-term compensation through long-term performance-based cash awards and equity incentives (in the form of stock options and restricted stock units). The Committee grants long-term incentive compensation opportunities to selected executives each year to promote alignment between shareholders and management, to replicate prevailing compensation practices in its benchmarking peer group and to ensure that the Company can continue to provide competitive pay.

*Long-Term Performance Awards*

Long-term performance awards, which are paid in cash, are designed to align the interests of the executives with our longer-term strategic objectives and to reward them in relation to the achievement of these objectives.

As a result of the Company s previous shift from five-year to three-year cycles, two long-term performance cycles ended in 2009. The first, set in 2004, was based on relative total stockholder return, or TSR, for the Company as compared to a group of comparable media companies measured over the five-year period 2005-2009. For this purpose, TSR is defined as the aggregate total return to a stockholder in respect of an investment in a company s common stock, assuming reinvestment of all cash dividends. The peer group consisted of Gannett Co., Inc., Media General, Inc., The McClatchy Company and The Washington Post Company. Payouts depended on where the Company s TSR ranked among those peers. For 2005-2009, the Company s TSR ranked second among the peer group and, accordingly, a payout of 137.5% of target amounts was made. Amounts paid to the named executive officers under this five-year performance cycle are set forth below.

| Name | Minimum ($) | Target ($) | Maximum ($) | Actual ($) |
|---|---|---|---|---|
| Arthur Sulzberger, Jr. | 0 | 700,000 | 1,225,000 | 962,500 |
| Janet L. Robinson | 0 | 650,000 | 1,137,500 | 893,750 |
| Michael Golden | 0 | 370,000 | 647,500 | 508,750 |
| James M. Follo | 0 | 222,000 | 388,500 | 305,250 |
| P. Steven Ainsley | 0 | 325,000 | 568,750 | 446,875 |

The second long-term performance cycle that ended in 2009 was a three-year cycle for the period 2007-2009, and was based on two performance measures:

- 50% of the potential award depended on revenue growth in excess of expense growth from continuing operations over a three-year period; and

- 50% of the potential award depended on a performance measure based upon return on invested capital, or ROIC, from continuing operations over a three-year period.

We define ROIC as the quotient of:

- our net operating profit after taxes, *divided by*,

our average invested capital total assets less non-interest-bearing current liabilities (current liabilities other than short-term debt and capital lease obligations) and minority interests.

With respect to the revenue growth/expense growth performance measure, potential payouts ranged from 25% to 175% of targeted amounts for revenue growth ranging from 0.5% to 1.5% (or above) in excess of expense growth (with payouts of 100% of targeted amount for 1.0%). With respect to the ROIC performance measure, potential payouts ranged up to 175% of targeted amounts for an ROIC of from 5.5% to 8.1% or above (with payouts of 100% of targeted amounts for 7.3%). The revenue/expense management target was not achieved at the minimum targeted levels, as significant expense reduction did not offset advertising revenue declines. Achievement against the ROIC metric, which is measured by reference to operating profit per dollar of average invested capital, was also adversely affected by lower advertising revenues and resulting operating profit declines. Accordingly, no payout was made for this cycle. The following table summarizes the results of this three-year long-term performance cycle.

| Name | Minimum ($) | Target ($) | Maximum ($) | Actual ($) |
|---|---|---|---|---|
| Arthur Sulzberger, Jr. | 0 | 1,000,000 | 1,750,000 | 0 |
| Janet L. Robinson | 0 | 1,000,000 | 1,750,000 | 0 |
| Michael Golden | 0 | 260,000 | 455,000 | 0 |
| James M. Follo | 0 | 250,000 | 437,500 | 0 |
| P. Steven Ainsley | 0 | 250,000 | 437,500 | 0 |

For the long-term performance awards granted in 2009 for the three-year period 2009-2011, amounts that may potentially be paid will depend on two performance measures:

- 50% of the potential award depends upon ROIC, as defined above; and
- 50% of the potential award depends upon operating cash flow margin, defined as operating profit before depreciation, amortization and special items divided by revenues over the three-year period.

Both metrics will be adjusted for special items that include the effects of significant acquisitions and dispositions (*i.e.*, those above $10 million), shutdown costs associated with the closure of a business or facility, changes in accounting rules, the cost of employee buy-outs not reflected in our budget and non-cash impairment charges for assets held for more than three years.

The Committee believes that the operating cash flow margin metric enhances the link between an award payment and the successful execution of our current revenue strategy and cost control initiatives, as reflected in the Company s three-year plan, which are particularly important during the current period of historical transformation in the industry.

The Committee believes that the ROIC metric aligns the interests of our executives with those of our stockholders by awarding incentive payments that correspond with the long-term creation of stockholder value, while also ensuring a better balance with other elements of long-term compensation, such as options and restricted stock units, which are tied to stock market performance. The Committee also believes the ROIC metric enables plan participants to take actions that directly affect our achievement of the targets.

Achievement with respect to each element of the award is independent of the other. The actual amount that will be paid will depend on the two performance measures and will range from zero to 175% of the target amounts, depending on performance. For our named executive officers, the target amounts for the long-term performance awards granted in 2009 for the three-year period 2009-2011 range from $300,000 to $2,000,000, with awards interpolated for performance between threshold and target and between target and maximum. The maximum payout for Mr. Sulzberger, Jr. and Ms. Robinson was set at $3,000,000 (rather than $3,500,000, or 175% of the target) due to an annual per person cap under the Company s plans.

| **Name** | **Minimum ($)** | **Target ($)** | **Maximum ($)** |
|---|---|---|---|
| Arthur Sulzberger, Jr. | 0 | 2,000,000 | 3,000,000 |
| Janet L. Robinson | 0 | 2,000,000 | 3,000,000 |
| Michael Golden | 0 | 400,000 | 700,000 |
| James M. Follo | 0 | 300,000 | 525,000 |
| P. Steven Ainsley | 0 | 300,000 | 525,000 |

For the long-term performance awards granted in February 2010 for the three-year period 2010-2012, amounts that may potentially be paid will similarly depend 50% on ROIC from continuing operations and 50% based on operating cash flow margin.

*Stock-Based Compensation*

Stock-based compensation for eligible employees, including the named executive officers, consists of stock options and restricted stock units. Stock options have an exercise price set at the market price on the date of grant, calculated as the average of high and low stock prices on the date of grant. Stock options granted to executive officers, including the named executive officers, in 2009 have a three-year vesting period, a decrease from the four-year vesting period of prior grants. The Committee determined that a three-year vesting period was more consistent with

comparable programs at other companies. Stock options expire after ten years. Restricted stock units granted to executive officers, including the named executive officers, in 2009 were cash-settled units with a three-year vesting period. During this vesting period, the units are generally forfeited if the holder leaves our employ but vest in the event of death, disability or retirement.

Our Committee makes annual equity grants to key employees, including executives, at a regularly scheduled meeting. In February 2009, our named executive officers received the following grants:

| Name | Options (#) | Restricted Stock Units (#) |
|---|---|---|
| Arthur Sulzberger, Jr. | 400,000 | 50,000 |
| Janet L. Robinson | 400,000 | 50,000 |
| Michael Golden | 115,000 | 12,000 |
| James M. Follo | 115,000 | 10,000 |
| P. Steven Ainsley | 90,000 | 9,000 |

These grants were determined by the Committee based upon the three factors discussed above. In determining equity grants for named executive officers, the Committee also considered the number and value of shares underlying the options and restricted stock units being granted and the related effect on dilution to other stockholders, and took into account the number of shares that remain available for grant under our executive stock incentive plan.

In February 2010, the Committee granted stock options and cash-settled restricted stock units to executive officers, including the named executive officers (other than Mr. Ainsley, who retired on December 31, 2009). The size of the 2010 restricted stock unit grants was tied to the Company s 2009 adjusted EBITDA performance target discussed above under Annual Bonuses. Although specific individual target grants were not set in 2009, the Committee had determined that, at target adjusted EBITDA, the 2010 grants would be at levels generally comparable to the 2009 grants, and that the grants would range from 80% to 120% of those levels based upon actual adjusted EBITDA compared to the budget target of $223,965,000. Based on 2009 adjusted EBITDA of $243,065,000, the Committee granted restricted stock units at the 100% level. The following table shows for each named executive officer the details of the 2010 grants.

| Name | Options (#) | Restricted Stock Units (#) |
|---|---|---|
| Arthur Sulzberger, Jr. | 181,650 | 13,650 |
| Janet L. Robinson | 181,650 | 13,650 |
| Michael Golden | 42,000 | 4,305 |
| James M. Follo | 42,000 | 4,253 |
| P. Steven Ainsley | | |

While the number of stock options and restricted stock units differed, the value of stock-based compensation granted in 2010 was equivalent to the value granted in 2009, consistent with the Committee s desire to maintain competitive compensation levels as recommended by its external consultant.

It has long been our policy to not grant in-the-money options in any manner, including granting an option with an exercise price set at the market price as of a date preceding the grant date. Awards made other than pursuant to the annual equity grant for example, to newly hired or recently promoted employees typically take place shortly after issuance of our quarterly earnings releases, and grants to new employees occur only after employment has commenced. In the past, the Committee has delegated, and may in the future on an annual basis delegate, the authority to make option and other equity grants in limited circumstances, such as for newly hired or recently promoted employees, to a three-member management committee authorized to grant a limited number of options and other equity awards under specified parameters. To ensure compliance with its long-standing procedures, the Committee has adopted a written grant policy.

During 2009, the Company discovered that portions of previously awarded stock option grants exceeded that permitted to be granted to a single individual during any calendar year under the terms of the Company s plans. The maximum number of shares of common stock with respect to its stock options that may be granted to any individual in any calendar year is 400,000. In 2008, Ms. Robinson was granted 250,000 options in excess of this limit and in 2009, each of Mr. Sulzberger, Jr. and Ms. Robinson was granted 100,000 options in excess of this limit. Each of these officers has agreed with the Company that these excess stock options are null and void. In order to satisfy the original intent with respect to these individuals compensation and to preserve the Company s tax deduction in respect of the associated compensation expense, after consulting with its outside compensation consultant, on September 17, 2009, the Committee recommended grants to Mr. Sulzberger, Jr. and Ms. Robinson of deferred payment stock appreciation rights equal in number to the void options. On September 17, 2009, these grants were approved by the independent Directors of the Board after consultation with all non-management Directors. The stock appreciation rights have economic terms comparable to the void options. The grant of these stock appreciation rights was described in a current report on Form 8-K filed by the Company on September 18, 2009.

*Actual Versus Target Compensation*

The tables below set forth, for the named executive officers, a comparison between target compensation and actual compensation, for 2009. The variance between 2009 target and actual compensation arises from several factors that are discussed throughout this Compensation Discussion and Analysis.

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**2009 Target Compensation**

| Name | Base Salary ($)[1] | Annual Bonus ($)[2] | 2005-2009 LTIP ($)[3] | 2007-2009 LTIP ($)[3] | Stock Options ($)[4] | Restricted Stock Units ($)[4] | Total ($) |
|---|---|---|---|---|---|---|---|
| Arthur Sulzberger, Jr. | 1,087,000 | 1,087,000 | 700,000 | 1,000,000 | 1,085,000 | 181,250 | 5,140,250 |
| Janet L. Robinson | 1,000,000 | 1,000,000 | 650,000 | 1,000,000 | 1,435,750 | 181,250 | 5,267,000 |
| Michael Golden | 627,000 | 438,900 | 370,000 | 260,000 | 147,775 | 43,500 | 1,887,175 |
| James M. Follo | 480,000 | 264,000 | 222,000 | 250,000 | 147,775 | 36,250 | 1,400,025 |
| P. Steven Ainsley | 500,000 | 275,000 | 325,000 | 250,000 | 115,650 | 32,625 | 1,498,275 |

**2009 Actual Compensation vs. Target**

| Name | Base Salary ($)[1] (% of Target) | Annual Bonus ($)[2] (% of Target) | 2005-2009 LTIP ($)[3] (% of Target) | 2007-2009 LTIP ($)[3] | Stock Options ($)[4] | Restricted Stock Units ($)[4] | Total ($) (% of Target) |
|---|---|---|---|---|---|---|---|
| Arthur Sulzberger, Jr. | 1,046,238 (96%) | 1,451,145 (134%) | 962,500 (137.5%) | 0 | 1,085,000 | 181,250 | 4,726,133 (91.9%) |
| Janet L. Robinson | 962,500 (96%) | 1,360,000 (136%) | 893,750 (137.5%) | 0 | 1,435,750 | 181,250 | 4,833,250 (91.8%) |
| Michael Golden | 603,488 (96%) | 576,879 (131%) | 508,750 (137.5%) | 0 | 147,775 | 43,500 | 1,880,392 (99.6%) |
| James M. Follo | 462,000 (96%) | 332,640 (126%) | 305,250 (137.5%) | 0 | 147,775 | 36,250 | 1,283,915 (91.7%) |
| P. Steven Ainsley | 481,731 (96%) | 0 | 446,875 (137.5%) | 0 | 115,650 | 32,625 | 1,076,881 (71.8%) |

1. Effective April 2009, the Committee approved a 5% reduction in base salary for all executive officers through December 31, 2009. See Executive Compensation Salaries.

2. Annual bonuses for 2009 were payable on achievement of a performance goal based on EBITDA; while performance exceeded the target, the Compensation Committee reduced the award. See Executive Compensation Annual Bonuses.

3. Long-term performance, or LTIP, compensation for 2009 is anomalous because, due to the Company s previous change from five-year to three-year performance cycles, two separate LTIP cycles ended in 2009.

4. Stock option and restricted stock unit grants for 2009 were not performance based. Accordingly, the amount of the grants for 2009, at grant date fair value, is included for both target and actual.

*Other Elements of Executive Compensation*

Our executive officers, including the named executive officers, have historically participated in the SERP, a non-qualified plan designed to provide benefits to a select group of executives that, when added to retirement income provided under other Company plans, will ensure payment of a competitive level of retirement income to these individuals. In November 2009, the Company made the decision to freeze the defined benefit pension plan for nonunion employees, the SERP and several other defined benefit plans effective December 31, 2009. Benefits earned by participants prior to January 1, 2010, were not affected.

At the same time, the Company increased contributions to the Company 401(k) Plan and approved the adoption of two unfunded supplemental defined contribution plans. Under the first, The New York Times Company Savings Restoration Plan (the Restoration Plan ), participants are provided with that portion of the 3% 401(k) basic contribution that cannot be provided under the Company 401(k) Plan as a result of Internal Revenue Code limits. Under the second, The New York Times Company Supplemental Executive Savings Plan (the Supplemental Executive Savings Plan ), a participant s account is credited each year with a supplemental contribution equal to: (i) 10% of his or her compensation for SERP participants on December 31, 2009; or (ii) 5% for those who were not SERP participants on December 31, 2009. For a further discussion of the SERP, see Post-Employment Compensation and Restoration Plan and Supplemental Executive Savings Plan below.

The Company s executive officers, including the named executive officers, currently participate in the Company s pension plan, the Company 401(k) Plan and the SERP, and effective January 1, 2010, participate in the Restoration Plan and Supplemental Executive Savings Plan. Certain participants in the Supplemental Executive Savings Plan, including Mr. Follo, will receive an additional 10% transition credit in addition to the contributions provided to other executives, through age 62. Transition credits are intended to be partial replacement benefits for those executives whose SERP benefits are reduced by more than 20% as a result of the freeze.

We provide certain limited perquisites to our executive officers. Perquisites provided in 2009 consisted primarily of financial planning services as well as, for Mr. Golden, tax preparation services provided in connection with his overseas assignment as Publisher of the International Herald Tribune and his relocation to New York from Paris, France,

in 2008, and for Mr. Ainsley, reimbursement of expenses related to his relocation from Tampa to Boston in 2006. Our Committee believes that these perquisites are relatively modest compared to those provided to executives at other public companies.

***Retirement of P. Steven Ainsley***

Effective December 31, 2009, Mr. Ainsley retired. In connection with his retirement, he and the Company entered into a Separation Agreement and General Release (the Separation Agreement ), which memorializes the terms of payments and other benefits to be provided to Mr. Ainsley pursuant to existing arrangements and as agreed by the Company in connection with his retirement. The Company will provide Mr. Ainsley:

- payments in the gross amount of $505,000;
- continued group health plan coverage for up to one year;
- continued financial planning services, as arranged by the Company for executives, for one year; and
- reimbursement of any non-deductible home loan interest expense incurred in 2009, grossed up for tax purposes, consistent with existing reimbursement practices initiated in connection with Mr. Ainsley s relocation from Tampa to Boston in 2006.

Mr. Ainsley is a participant in the SERP, and the SERP Committee has consented to his early retirement. He is therefore eligible to receive SERP benefits pursuant to its terms. In connection with his retirement, he will receive a pro rated portion of any long-term performance awards made pursuant to performance cycles in effect at December 31, 2009, as, if and when such long-term performance awards are paid out to other plan participants. Payments will be based on the portion of the cycle elapsed through December 31, 2009. In addition, in accordance with their terms, his previously unvested restricted stock units and stock options vested on December 31, 2009 (or vested or will vest shortly thereafter).

The Separation Agreement also contains Mr. Ainsley s and the Company s mutual release of each other from all claims.

The terms of the Separation Agreement were described in a current report on Form 8-K filed by the Company on January 14, 2010.

***Recoupment of Compensation***

The Company has a policy on recoupment of performance-based bonuses in the event of certain restatements of financial results arising due to an executive officer s fraud or intentional misconduct. This policy is described above under Board Policy on Recoupment of Bonuses Upon Restatement Due to Fraud or Misconduct.

***Stock Ownership Guidelines***

Since 2004, we have maintained minimum stock ownership guidelines for those executive officers named in the Summary Compensation Table. The Chairman is required to own shares of the Company s Class A stock equal in value to three times his current annual base salary, and the other named executive officers are required to own shares equal in value to one or two times his or her current annual base salary. Stock- and cash-settled restricted stock units, as well as shares held through the Company 401(k) Plan, are counted in calculating ownership, but stock options and SARs are not. An executive officer s stock holdings are valued at the greater of the fair market value at year end or the officer s tax basis in the shares (or in the case of restricted stock units, the grant date fair market value). Each affected executive officer has five years from becoming subject to the guidelines to attain the full holding requirements. The Committee is advised annually of the holdings of each affected officer. All of our named executive officers are in compliance with the guidelines.

In addition, as part of our insider trading policy, executive officers may not engage in short-term, speculative trading in Company stock, such as entering into short sales, buying, selling or writing puts or calls, or engaging in hedging or other derivative transactions, or hold Company stock in a margin account or pledge Company stock as collateral for a loan.

***Tax Matters***

The Internal Revenue Code imposes certain limitations on the deductibility of compensation paid to certain executive officers named in the Summary Compensation Table. Certain compensation, including performance-based compensation meeting specified requirements, is exempt from this deduction limit. To the extent consistent with corporate performance objectives, we have structured, and intend to continue to structure, performance-based compensation to executive officers who may be subject to these limitations in a manner that maximizes the available deduction. However, we have awarded non-deductible compensation in the past, and we expect to do so in the future when we deem that it is necessary to further the objectives of executive compensation.

The principal components of non-deductible compensation include the individual and diversity components of the executive officers annual bonus, restricted stock units and perquisites. The Committee continues to evaluate these items on an annual basis. The Committee believes that retaining the discretion to award annual bonuses based in part on individual goals and diversity efforts furthers the interests of the Company notwithstanding the increased cost of awarding non-deductible compensation.

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**Summary Compensation Table**

The following table summarizes the total compensation earned by each named executive officer for the fiscal year ended December 27, 2009.

| | Salary | Bonus | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Change in Pension Value and Non-qualified Deferred Compensation Earnings | All Other Compensation | Total |
|---|---|---|---|---|---|---|---|---|
| l | | | | | | | | |
| r | ($)[1] | ($) | ($)[2] | ($)[2] | ($)[3] | ($)[4] | ($)[5] | ($) |
| ) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| 9 | 1,046,238 | 0 | 181,250 | 1,085,000 | 2,413,645 | 1,228,912 | 31,693 | 5,986,738 |
| 8 | | 38,045 | | | 597,850 | | | |
| 7 | 1,087,000 | 0 | 0 | 0 | 1,195,700 | 559,826 | 48,878 | 2,331,599 |
| | 1,087,000 | | 0 | 0 | | 212,935 | 28,251 | 2,523,886 |
| 9 | 962,500 | 0 | 181,250 | 1,435,750 | 2,253,750 | 1,397,812 | 31,693 | 6,262,755 |
| 8 | | 35,000 | | | 562,500 | | | |
| 7 | 1,000,000 | 0 | 1,315,275 | 896,000 | 1,100,000 | 898,171 | 46,368 | 4,753,314 |
| | 1,000,000 | | 0 | 0 | | 1,281,325 | 30,187 | 3,411,512 |
| 9 | 603,488 | 0 | 43,500 | 147,775 | | | | |
| 8 | | 21,945 | | | | | | |
| 7 | 627,000 | 0 | 0 | 0 | | | | |
| | 627,000 | | 0 | 0 | | | | |
| | | | | | 76.3% | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | $ 212.0 | | 75.2% | $ 6.5 |
| 67.8 | 23.7% | 69.8 | 24.8% | | (2.0) | -2.9% |
| 286.3 | 100.0% | 281.8 | 100.0% | | 4.5 | 1.6% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (170.9) | -59.7% | | (174.2) | -61.8% | | 3.3 | 1.9% |
| 115.4 | 40.3% | | 107.6 | 38.2% | | 7.8 | 7.2% |
| (71.5) | -25.0% | | (65.7) | -23.3% | | (5.8) | -8.8% |
| 43.9 | 15.3% | $ | 41.9 | 14.9% | $ | 2.0 | 4.8% |

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*Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)*

Segment net sales of $286.3 million in the fourth quarter of 2016 increased $4.5 million, or 1.6%, from 2015 levels, reflecting a $6.5 million, or 2.4%, organic sales gain and $4.2 million of acquisition-related sales, partially offset by $6.2 million of unfavorable foreign currency translation. The organic sales increase primarily includes a high single-digit gain in the segment s European-based hand tools business and a low single-digit increase to customers in critical industries, largely as a result of higher sales to the military. These organic sales gains were partially offset by a mid single-digit decline in the segment s power tools operations and a low single-digit decline in the segment s Asia/Pacific operations.

Segment gross profit of $115.4 million in the fourth quarter of 2016 compared to $107.6 million last year. Gross margin of 40.3% in the quarter improved 210 bps from 38.2% last year primarily due to benefits from higher sales and savings from RCI initiatives, and 100 bps of favorable foreign currency effects.

Segment operating expenses of $71.5 million in the fourth quarter of 2016 compared to $65.7 million last year. The operating expense margin of 25.0% in the quarter increased 170 bps from 23.3% last year primarily due to higher costs, including operating expenses for Car-O-Liner and Sturtevant Richmont, a 70 bps benefit realized in the fourth quarter of 2015 from a gain on the sale of a former manufacturing facility, and 10 bps of unfavorable foreign currency effects.

As a result of these factors, segment operating earnings of $43.9 million in the fourth quarter of 2016, including $1.8 million of favorable foreign currency effects, increased $2.0 million from 2015 levels. Operating margin for the Commercial & Industrial Group of 15.3% in the fourth quarter of 2016 improved 40 bps from 14.9% last year.

**Snap-on Tools Group**

| | Fourth Quarter | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | 2016 | | 2015 | | Change | |
| Segment net sales | $ 417.5 | 100.0% | $ 411.2 | 100.0% | $ 6.3 | 1.5% |
| Cost of goods sold | (242.0) | -58.0% | (237.5) | -57.8% | (4.5) | -1.9% |
| Gross profit | 175.5 | 42.0% | 173.7 | 42.2% | 1.8 | 1.0% |
| Operating expenses | (102.0) | -24.4% | (101.8) | -24.7% | (0.2) | -0.2% |
| Segment operating earnings | $ 73.5 | 17.6% | $ 71.9 | 17.5% | $ 1.6 | 2.2% |

Segment net sales of $417.5 million in the fourth quarter of 2016 increased $6.3 million, or 1.5%, from 2015 levels, reflecting a $12.2 million, or 3.0%, organic sales gain partially offset by $5.9 million of unfavorable foreign currency translation. The organic sales increase includes a low single-digit gain in the company s U.S. franchise operations and a mid single-digit gain in the company s international franchise operations.

Segment gross profit of $175.5 million in the fourth quarter of 2016 compared to $173.7 million last year. Gross margin of 42.0% in the quarter declined 20 bps from 42.2% last year as 60 bps of unfavorable foreign currency effects were partially offset by benefits from higher sales.

Segment operating expenses of $102.0 million in the fourth quarter of 2016 compared to $101.8 million last year. The operating expense margin of 24.4% in the quarter improved 30 bps from 24.7% last year primarily due to sales volume leverage.

As a result of these factors, segment operating earnings of $73.5 million in the fourth quarter of 2016, including $3.8 million of unfavorable foreign currency effects, increased $1.6 million from 2015 levels. Operating margin for the Snap-on Tools Group of 17.6% in the fourth quarter of 2016 improved 10 bps from 17.5% last year.

**Repair Systems & Information Group**

| | Fourth Quarter | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | 2016 | | 2015 | | Change | |
| External net sales | $ 253.8 | 79.4% | $ 228.5 | 81.4% | $ 25.3 | 11.1% |
| Intersegment net sales | 66.0 | 20.6% | 52.1 | 18.6% | 13.9 | 26.7% |
| Segment net sales | 319.8 | 100.0% | 280.6 | 100.0% | 39.2 | 14.0% |
| Cost of goods sold | (166.8) | -52.2% | (149.6) | -53.3% | (17.2) | -11.5% |
| Gross profit | 153.0 | 47.8% | 131.0 | 46.7% | 22.0 | 16.8% |
| Operating expenses | (70.5) | -22.0% | (58.9) | -21.0% | (11.6) | -19.7% |
| Segment operating earnings | $ 82.5 | 25.8% | $ 72.1 | 25.7% | $ 10.4 | 14.4% |

Segment net sales of $319.8 million in the fourth quarter of 2016 increased $39.2 million, or 14.0%, from 2015 levels, reflecting a $24.6 million, or 8.9%, organic sales gain and $19.1 million of acquisition-related sales, partially offset by $4.5 million of unfavorable foreign currency translation. The organic sales increase includes a double-digit gain in sales of diagnostic and repair information products to independent repair shop owners and managers, a mid single-digit increase in sales to OEM dealerships and a low single-digit gain in sales of undercar equipment.

Segment gross profit of $153.0 million in the fourth quarter of 2016 compared to $131.0 million last year. Gross margin of 47.8% in the quarter improved 110 bps from 46.7% last year primarily due to benefits from higher sales and savings from RCI initiatives.

Segment operating expenses of $70.5 million in the fourth quarter of 2016 compared to $58.9 million last year. The operating expense margin of 22.0% increased 100 bps from 21.0% last year primarily due to 90 bps of impact from the Car-O-Liner acquisition.

As a result of these factors, segment operating earnings of $82.5 million in the fourth quarter of 2016, including $1.7 million of unfavorable foreign currency effects, increased $10.4 million from 2015 levels. Operating margin for the Repair Systems & Information Group of 25.8% in the fourth quarter of 2016 improved 10 bps from 25.7% last year.

**Financial Services**

| | Fourth Quarter | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | 2016 | | 2015 | | Change | |
| Financial services revenue | $ 74.2 | 100.0% | $ 63.1 | 100.0% | $ 11.1 | 17.6% |
| Financial services expenses | (22.6) | -30.5% | (18.1) | -28.7% | (4.5) | -24.9% |
| Segment operating earnings | $ 51.6 | 69.5% | $ 45.0 | 71.3% | $ 6.6 | 14.7% |

Financial services revenue of $74.2 million in the fourth quarter of 2016 increased $11.1 million, or 17.6%, from $63.1 million last year primarily reflecting $9.6 million of higher revenue as a result of continued growth of the company s financial services portfolio and $1.3 million of increased revenue from higher average yields on finance receivables, partially offset by $0.1 million of lower revenue from lower average yields on contract receivables. In the fourth quarters of 2016 and 2015, the respective average yield on finance receivables was 18.2% and 17.8%, and the respective average yield on contract receivables was 9.3% and 9.5%. Originations of $260.3 million in the fourth quarter of 2016

increased $8.3 million, or 3.3%, from 2015 levels.

Financial services expenses primarily include personnel-related and other general and administrative costs, as well as provisions for credit losses. These expenses are generally more dependent on changes in the financial services portfolio than they are on the revenue of the segment. Financial services expenses of $22.6 million in the fourth quarter of 2016 increased from $18.1 million last year primarily due to changes in both the size of the portfolio and in the provisions for credit losses. As a percentage of the average financial services portfolio, financial services expenses were 1.3% and 1.2% in the fourth quarters of 2016 and 2015, respectively.

*Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)*

Financial services operating earnings of $51.6 million in the fourth quarter of 2016, including $0.6 million of unfavorable foreign currency effects, increased $6.6 million, or 14.7%, from 2015 levels.

See Note 1 and Note 3 to the Consolidated Financial Statements for further information on financial services.

**Corporate**

Snap-on s fourth quarter 2016 general corporate expenses of $23.8 million increased $0.2 million from $23.6 million last year primarily due to higher acquisition-related and other costs partially offset by $1.6 million of lower pension expense.

**2015 vs. 2014**

Results of operations for 2015 and 2014 are as follows:

| *(Amounts in millions)* | 2015 | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| Net sales | $ 3,352.8 | 100.0% | $ 3,277.7 | 100.0% | $ 75.1 | 2.3% |
| Cost of goods sold | (1,704.5) | -50.8% | (1,693.4) | -51.7% | (11.1) | -0.7% |
| Gross profit | 1,648.3 | 49.2% | 1,584.3 | 48.3% | 64.0 | 4.0% |
| Operating expenses | (1,053.7) | -31.5% | (1,048.7) | -32.0% | (5.0) | -0.5% |
| Operating earnings before financial services | 594.6 | 17.7% | 535.6 | 16.3% | 59.0 | 11.0% |
| Financial services revenue | 240.3 | 100.0% | 214.9 | 100.0% | 25.4 | 11.8% |
| Financial services expenses | (70.1) | -29.2% | (65.8) | -30.6% | (4.3) | -6.5% |
| Operating earnings from financial services | 170.2 | 70.8% | 149.1 | 69.4% | 21.1 | 14.2% |
| Operating earnings | 764.8 | 21.3% | 684.7 | 19.6% | 80.1 | 11.7% |
| Interest expense | (51.9) | -1.4% | (52.9) | -1.5% | 1.0 | 1.9% |
| Other income (expense) net | (2.4) | -0.1% | (0.9) | | (1.5) | NM |
| Earnings before income taxes and equity earnings | 710.5 | 19.8% | 630.9 | 18.1% | 79.6 | 12.6% |
| Income tax expense | (221.2) | -6.2% | (199.5) | -5.7% | (21.7) | -10.9% |
| Earnings before equity earnings | 489.3 | 13.6% | 431.4 | 12.4% | 57.9 | 13.4% |
| Equity earnings, net of tax | 1.3 | | 0.7 | | 0.6 | NM |
| Net earnings | 490.6 | 13.6% | 432.1 | 12.4% | 58.5 | 13.5% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net earnings attributable to noncontrolling interests | | (11.9) | -0.3% | | (10.2) | -0.3% | | (1.7) | -16.7% |
| Net earnings attributable to Snap-on Inc. | $ | 478.7 | 13.3% | $ | 421.9 | 12.1% | $ | 56.8 | 13.5% |

NM: Not meaningful

Percentage Disclosure: All income statement line item percentages below Operating earnings from financial services are calculated as a percentage of the sum of Net sales and Financial services revenue.

Snap-on s 2015 fiscal year contained 52 weeks of operating results. Snap-on s 2014 fiscal year contained 53 weeks of operating results. The impact of the additional week of operations in fiscal 2014 was not material to Snap-on s full year 2014 net sales or net earnings.

Net sales of $3,352.8 million in 2015 increased $75.1 million, or 2.3%, from 2014 levels, reflecting a $220.8 million, or 7.1%, organic sales gain and $12.0 million of acquisition-related sales, partially offset by $157.7 million of unfavorable foreign currency translation.

Gross profit of $1,648.3 million in 2015 compared to $1,584.3 million in 2014. Gross margin of 49.2% in 2015 improved 90 bps from 48.3% in 2014 primarily due to benefits from higher sales and savings from RCI initiatives, as well as 20 bps of lower restructuring costs. Restructuring costs included in gross profit were zero and $5.7 million in 2015 and 2014, respectively.

Operating expenses of $1,053.7 million in 2015 compared to $1,048.7 million in 2014. The operating expense margin of 31.5% in 2015 improved 50 bps from 32.0% in 2014 primarily due to sales volume leverage and savings from RCI initiatives, partially offset by 20 bps of higher pension expense. Restructuring costs included in operating expenses were zero and $0.8 million in 2015 and 2014, respectively.

Operating earnings before financial services of $594.6 million in 2015, including $39.5 million of unfavorable foreign currency effects, increased $59.0 million, or 11.0%, as compared to $535.6 million in 2014. As a percentage of net sales, operating earnings before financial services of 17.7% in 2015 improved 140 bps from 16.3% in 2014.

Financial services revenue of $240.3 million in 2015 compared to revenue of $214.9 million in 2014. Financial services operating earnings of $170.2 million in 2015, including $2.6 million of unfavorable foreign currency effects, increased $21.1 million, or 14.2%, as compared to $149.1 million in 2014. The year-over-year increases in both revenue and operating earnings primarily reflect continued growth of the company s financial services portfolio.

Operating earnings of $764.8 million in 2015, including $42.1 million of unfavorable foreign currency effects, increased $80.1 million, or 11.7%, from $684.7 million in 2014. As a percentage of revenues, operating earnings of 21.3% in 2015 improved 170 bps from 19.6% in 2014.

Interest expense of $51.9 million in 2015 decreased $1.0 million from $52.9 million in 2014. See Note 9 to the Consolidated Financial Statements for information on Snap-on s debt and credit facilities.

Other income (expense) net was expense of $2.4 million and $0.9 million in 2015 and 2014, respectively. See Note 16 to the Consolidated Financial Statements for information on other income (expense) net.

Snap-on s effective income tax rate on earnings attributable to Snap-on was 31.7% in 2015 and 32.1% in 2014. See Note 8 to the Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on of $478.7 million, or $8.10 per diluted share, in 2015 increased $56.8 million, or $0.96 per diluted share, from 2014 levels. Net earnings attributable to Snap-on in 2014 were $421.9 million or $7.14 per diluted share.

**Exit and Disposal Activities**

Snap-on did not record any costs for exit and disposal activities in 2015; Snap-on recorded $6.5 million of costs for exit and disposal activities in 2014. See Note 7 to the Consolidated Financial Statements for information on Snap-on s exit and disposal activities.

**Segment Results**

**Commercial & Industrial Group**

| *(Amounts in millions)* | 2015 | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| External net sales | $ 895.5 | 77.0% | $ 952.1 | 81.0% | $ (56.6) | -5.9% |
| Intersegment net sales | 268.1 | 23.0% | 222.7 | 19.0% | 45.4 | 20.4% |
| Segment net sales | 1,163.6 | 100.0% | 1,174.8 | 100.0% | (11.2) | -1.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cost of goods sold | (717.1) | -61.6% | (725.1) | -61.7% | 8.0 | 1.1% |
| Gross profit | 446.5 | 38.4% | 449.7 | 38.3% | (3.2) | -0.7% |
| Operating expenses | (277.1) | -23.8% | (291.1) | -24.8% | 14.0 | 4.8% |
| Segment operating earnings | $ 169.4 | 14.6% | $ 158.6 | 13.5% | $ 10.8 | 6.8% |

Segment net sales of $1,163.6 million in 2015 decreased $11.2 million, or 1.0%, from 2014 levels, reflecting $75.3 million of unfavorable foreign currency translation partially offset by a $64.1 million, or 5.8%, organic sales gain. The organic sales increase primarily included a double-digit gain in the segment s power tools operations and high single-digit increases from both the segment s European-based hand tools business and Asia/Pacific operations; sales to customers in critical industries were essentially flat, as sales gains in several market segments were generally offset by lower sales to customers in the oil and gas sector of our natural resources market segment.

Segment gross profit of $446.5 million in 2015 compared to $449.7 million in 2014. Gross margin of 38.4% in 2015 improved 10 bps from 38.3% in 2014, as savings from RCI initiatives were partially offset by a shift in sales that included higher volumes of lower gross margin products, including increased sales from the segment s power tools and Asia/Pacific operations. Restructuring costs included in gross profit were zero and $1.0 million in 2015 and 2014, respectively.

Segment operating expenses of $277.1 million in 2015 compared to $291.1 million in 2014. The operating expense margin of 23.8% in 2015 improved 100 bps from 24.8% in 2014 primarily due to benefits from the sales shift noted above and a 20 bps gain from the sale of a former manufacturing facility. Restructuring costs included in operating expenses were zero and $0.4 million in 2015 and 2014, respectively.

As a result of these factors, segment operating earnings of $169.4 million in 2015, including $7.7 million of unfavorable foreign currency effects, increased $10.8 million from 2014 levels. Operating margin for the Commercial & Industrial Group of 14.6% in 2015 improved 110 bps from 13.5% in 2014.

**Snap-on Tools Group**

| *(Amounts in millions)* | 2015 | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| Segment net sales | $ 1,568.7 | 100.0% | $ 1,455.2 | 100.0% | $ 113.5 | 7.8% |
| Cost of goods sold | (885.7) | -56.5% | (824.9) | -56.7% | (60.8) | -7.4% |
| Gross profit | 683.0 | 43.5% | 630.3 | 43.3% | 52.7 | 8.4% |
| Operating expenses | (427.0) | -27.2% | (407.2) | -28.0% | (19.8) | -4.9% |
| Segment operating earnings | $ 256.0 | 16.3% | $ 223.1 | 15.3% | $ 32.9 | 14.7% |

Segment net sales of $1,568.7 million in 2015 increased $113.5 million, or 7.8%, from 2014 levels, reflecting a $154.2 million, or 10.9%, organic sales gain partially offset by $40.7 million of unfavorable foreign currency translation. The organic sales increase included double-digit gains in both the company s U.S. and international franchise operations.

Segment gross profit of $683.0 million in 2015 compared to $630.3 million in 2014. Gross margin of 43.5% in 2015 improved 20 bps from 43.3% in 2014 primarily due to benefits from higher sales and savings from RCI initiatives, partially offset by 90 bps of unfavorable foreign currency effects.

Segment operating expenses of $427.0 million in 2015 compared to $407.2 million in 2014. The operating expense margin of 27.2% in 2015 improved 80 bps from 28.0% in 2014 primarily due to sales volume leverage.

As a result of these factors, segment operating earnings of $256.0 million in 2015, including $21.3 million of unfavorable foreign currency effects, increased $32.9 million from 2014 levels. Operating margin for the Snap-on Tools Group of 16.3% in 2015 improved 100 bps from 15.3% in 2014.

**Repair Systems & Information Group**

| *(Amounts in millions)* | 2015 | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| External net sales | $ 888.6 | 79.8% | $ 870.4 | 79.5% | $ 18.2 | 2.1% |
| Intersegment net sales | 224.6 | 20.2% | 224.8 | 20.5% | (0.2) | -0.1% |
| Segment net sales | 1,113.2 | 100.0% | 1,095.2 | 100.0% | 18.0 | 1.6% |
| Cost of goods sold | (594.4) | -53.4% | (590.9) | -54.0% | (3.5) | -0.6% |
| Gross profit | 518.8 | 46.6% | 504.3 | 46.0% | 14.5 | 2.9% |
| Operating expenses | (245.4) | -22.0% | (253.1) | -23.1% | 7.7 | 3.0% |
| Segment operating earnings | $ 273.4 | 24.6% | $ 251.2 | 22.9% | $ 22.2 | 8.8% |

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Segment net sales of $1,113.2 million in 2015 increased $18.0 million, or 1.6%, from 2014 levels, reflecting a $51.8 million, or 4.9%, organic sales gain and $12.0 million of acquisition-related sales, partially offset by $45.8 million of unfavorable foreign currency translation. The organic sales increase primarily included mid single-digit gains in sales of undercar equipment, sales to OEM dealerships, and sales of diagnostic and repair information products to independent repair shop owners and managers.

Segment gross profit of $518.8 million in 2015 compared to $504.3 million in 2014. Gross margin of 46.6% in 2015 improved 60 bps from 46.0% in 2014 primarily due to contributions from higher sales and savings from RCI initiatives, and 40 bps of lower restructuring costs. These gross margin improvements were partially offset by a shift in sales that included higher volumes of lower gross margin products, including increased essential tool and facilitation sales to OEM dealerships. Restructuring costs included in gross profit were zero and $4.7 million in 2015 and 2014, respectively.

Segment operating expenses of $245.4 million in 2015 compared to $253.1 million in 2014. The operating expense margin of 22.0% in 2015 improved 110 bps from 23.1% in 2014 primarily due to sales volume leverage, including benefits from the sales shift noted above, and savings from RCI initiatives. Restructuring costs included in operating expenses were zero and $0.4 million in 2015 and 2014, respectively.

As a result of these factors, segment operating earnings of $273.4 million in 2015, including $10.5 million of unfavorable foreign currency effects, increased $22.2 million from 2014 levels. Operating margin for the Repair Systems & Information Group of 24.6% in 2015 improved 170 bps from 22.9% in 2014.

**Financial Services**

| *(Amounts in millions)* | 2015 | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| Financial services revenue | $ 240.3 | 100.0% | $ 214.9 | 100.0% | $ 25.4 | 11.8% |
| Financial services expenses | (70.1) | -29.2% | (65.8) | -30.6% | (4.3) | -6.5% |
| Segment operating earnings | $ 170.2 | 70.8% | $ 149.1 | 69.4% | $ 21.1 | 14.2% |

Financial services revenue of $240.3 million in 2015 increased $25.4 million, or 11.8%, from $214.9 million in 2014 primarily reflecting $23.0 million of higher revenue as a result of continued growth of the company s financial services portfolio and $2.2 million of increased revenue from higher average yields on finance receivables. In 2015 and 2014, the average yield on finance receivables was 17.8% and 17.6%, respectively, and the average yield on contract receivables was 9.5% in both years. Originations of $993.7 million in 2015 increased $105.1 million, or 11.8%, from 2014 levels.

Financial services expenses of $70.1 million in 2015 compared to $65.8 million in 2014. As a percentage of the average financial services portfolio, financial services expenses were 4.8% and 5.1% in 2015 and 2014, respectively.

Financial services operating earnings of $170.2 million in 2015, including $2.6 million of unfavorable foreign currency effects, increased $21.1 million, or 14.2%, from 2014 levels.

See Note 1 to the Consolidated Financial Statements for further information on financial services.

**Corporate**

Snap-on s general corporate expenses in 2015 of $104.2 million increased $6.9 million from $97.3 million in 2014 primarily due to $7.9 million of higher pension expense.

**Non-GAAP Supplemental Data**

The following non-GAAP supplemental data is presented for informational purposes to provide readers with insight into the information used by management for assessing the operating performance of Snap-on Incorporated s ( Snap-on ) non-financial services ( Operations ) and Financial Services businesses.

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*Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)*

The supplemental Operations data reflects the results of operations and financial position of Snap-on s tools, diagnostic and equipment products, software and other non-financial services operations with Financial Services on the equity method. The supplemental Financial Services data reflects the results of operations and financial position of Snap-on s U.S. and international financial services operations. The financing needs of Financial Services are met through intersegment borrowings and cash generated from Operations; Financial Services is charged interest expense on intersegment borrowings at market rates. Income taxes are charged to Financial Services on the basis of the specific tax attributes generated by the U.S. and international financial services businesses. Transactions between the Operations and Financial Services businesses were eliminated to arrive at the Consolidated Financial Statements.

Non-GAAP Supplemental Consolidating Data Supplemental Statements of Earnings information for 2016, 2015 and 2014 is as follows:

| | | Operations* | | | Financial Services | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Net sales | $ 3,430.4 | $ 3,352.8 | $ 3,277.7 | $ | $ | $ |
| Cost of goods sold | (1,720.8) | (1,704.5) | (1,693.4) | | | |
| Gross profit | 1,709.6 | 1,648.3 | 1,584.3 | | | |
| Operating expenses | (1,054.1) | (1,053.7) | (1,048.7) | | | |
| Operating earnings before financial services | 655.5 | 594.6 | 535.6 | | | |
| Financial services revenue | | | | 281.4 | 240.3 | 214.9 |
| Financial services expenses | | | | (82.7) | (70.1) | (65.8) |
| Operating earnings from financial services | | | | 198.7 | 170.2 | 149.1 |
| Operating earnings | 655.5 | 594.6 | 535.6 | 198.7 | 170.2 | 149.1 |
| Interest expense | (51.9) | (51.4) | (52.2) | (0.3) | (0.5) | (0.7) |
| Intersegment interest income (expense) net | 72.2 | 62.7 | 56.7 | (72.2) | (62.7) | (56.7) |
| Other income (expense) net | (0.7) | (2.4) | (0.8) | 0.1 | | (0.1) |
| Earnings before income taxes and equity earnings | 675.1 | 603.5 | 539.3 | 126.3 | 107.0 | 91.6 |
| Income tax expense | (197.7) | (181.9) | (165.8) | (46.6) | (39.3) | (33.7) |
| Earnings before equity earnings | 477.4 | 421.6 | 373.5 | 79.7 | 67.7 | 57.9 |
| Financial services net earnings attributable to Snap-on | 79.7 | 67.7 | 57.9 | | | |
| Equity earnings, net of tax | 2.5 | 1.3 | 0.7 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net earnings | 559.6 | 490.6 | 432.1 | 79.7 | 67.7 | 57.9 |
| Net earnings attributable to noncontrolling interests | (13.2) | (11.9) | (10.2) | | | |
| Net earnings attributable to Snap-on | $ 546.4 | $ 478.7 | $ 421.9 | $ 79.7 | $ 67.7 | $ 57.9 |

* Snap-on with Financial Services on the equity method.

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Non-GAAP Supplemental Consolidating Data Supplemental Balance Sheet Information as of 2016 and 2015 year end is as follows:

| | Operations* | | Financial Services | |
|---|---|---|---|---|
| *(Amounts in millions)* | 2016 | 2015 | 2016 | 2015 |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 77.5 | $ 92.7 | $ 0.1 | $ 0.1 |
| Intersegment receivables | 15.0 | 15.9 | | |
| Trade and other accounts receivable net | 598.2 | 562.2 | 0.6 | 0.3 |
| Finance receivables net | | | 472.5 | 447.3 |
| Contract receivables net | 7.9 | 8.0 | 80.2 | 74.1 |
| Inventories net | 530.5 | 497.8 | | |
| Prepaid expenses and other assets | 122.4 | 111.5 | 1.1 | 1.2 |
| Total current assets | 1,351.5 | 1,288.1 | 554.5 | 523.0 |
| Property and equipment net | 423.8 | 412.1 | 1.4 | 1.4 |
| Investment in Financial Services | 288.7 | 251.8 | | |
| Deferred income tax assets | 49.1 | 40.6 | 23.7 | 19.8 |
| Intersegment long-term notes receivable | 584.7 | 398.7 | | |
| Long-term finance receivables net | | | 934.5 | 772.7 |
| Long-term contract receivables net | 11.2 | 12.1 | 275.5 | 254.5 |
| Goodwill | 895.5 | 790.1 | | |
| Other intangibles net | 184.6 | 195.0 | | |
| Other assets | 47.9 | 49.9 | 0.1 | 1.0 |
| Total assets | $ 3,837.0 | $ 3,438.4 | $ 1,789.7 | $ 1,572.4 |

* Snap-on with Financial Services on the equity method.

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*Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)*

Non-GAAP Supplemental Consolidating Data Supplemental Balance Sheet Information (continued):

| | Operations* | | Financial Services | |
|---|---|---|---|---|
| *(Amounts in millions)* | 2016 | 2015 | 2016 | 2015 |
| LIABILITIES AND EQUITY | | | | |
| Current liabilities: | | | | |
| Notes payable and current maturities of long-term debt | $ 151.4 | $ 18.4 | $ 150.0 | $ |
| Accounts payable | 170.3 | 148.2 | 0.6 | 0.1 |
| Intersegment payables | | | 15.0 | 15.9 |
| Accrued benefits | 52.8 | 52.1 | | |
| Accrued compensation | 85.7 | 86.9 | 4.1 | 4.1 |
| Franchisee deposits | 66.7 | 64.4 | | |
| Other accrued liabilities | 292.1 | 277.4 | 22.8 | 25.0 |
| Total current liabilities | 819.0 | 647.4 | 192.5 | 45.1 |
| Long-term debt and intersegment long-term debt | | | 1,293.5 | 1,260.4 |
| Deferred income tax liabilities | 13.1 | 14.1 | | 0.2 |
| Retiree health care benefits | 36.7 | 37.9 | | |
| Pension liabilities | 246.5 | 227.8 | | |
| Other long-term liabilities | 86.5 | 80.5 | 15.0 | 14.9 |
| Total liabilities | 1,201.8 | 1,007.7 | 1,501.0 | 1,320.6 |
| Total shareholders equity attributable to Snap-on | 2,617.2 | 2,412.7 | 288.7 | 251.8 |
| Noncontrolling interests | 18.0 | 18.0 | | |
| Total equity | 2,635.2 | 2,430.7 | 288.7 | 251.8 |
| Total liabilities and equity | $ 3,837.0 | $ 3,438.4 | $ 1,789.7 | $ 1,572.4 |

* Snap-on with Financial Services on the equity method.

**Liquidity and Capital Resources**

Snap-on s growth has historically been funded by a combination of cash provided by operating activities and debt financing. On January 17, 2017, Snap-on repaid $150 million of unsecured 5.50% notes (the 2017 Notes ) upon maturity with available cash and cash generated from issuances of commercial paper. Snap-on believes that its cash from operations and collections of finance receivables, coupled with its sources of borrowings and available cash on hand, are sufficient to fund its currently anticipated requirements for scheduled debt payments (including the January 15, 2018 repayment of $250 million of unsecured 4.25% notes at maturity (the 2018 Notes )), payments of interest and dividends, new receivables originated by our financial services businesses, capital expenditures, working capital, the funding of pension plans, and funding for share repurchases and acquisitions, as they arise.

Due to Snap-on s credit rating over the years, external funds have been available at an acceptable cost. As of the close of business on February 3, 2017, Snap-on s long-term debt and commercial paper were rated, respectively, A3 and P-2 by Moody s Investors Service; A- and A-2 by Standard & Poor s; and A and F1 by Fitch Ratings. Snap-on believes that its current credit arrangements are sound and that the strength of its balance sheet affords the company the financial flexibility, including through access to financial markets for potential new financing, to respond to both internal growth opportunities and those available through acquisitions. However, Snap-on cannot provide any assurances of the availability of future financing or the terms on which it might be available, or that its debt ratings may not decrease.

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

As of 2016 year end, working capital (current assets less current liabilities) of $894.5 million decreased $224.1 million from $1,118.6 million as of 2015 year end primarily as a result of the inclusion of the 2017 Notes and $130 million of outstanding commercial paper borrowings in Notes payable and current maturities of long-term debt, partially offset by the other net changes in working capital discussed below. As of 2015 year end, the 2017 Notes were included in Long-term debt on the accompanying Consolidated Balance Sheet as their scheduled maturity was in excess of one year of the 2015 year-end balance sheet date.

The following represents the company s working capital position as of 2016 and 2015 year end:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents | $ 77.6 | $ 92.8 |
| Trade and other accounts receivable net | 598.8 | 562.5 |
| Finance receivables net | 472.5 | 447.3 |
| Contract receivables net | 88.1 | 82.1 |
| Inventories net | 530.5 | 497.8 |
| Prepaid expenses and other assets | 116.5 | 106.3 |
| Total current assets | 1,884.0 | 1,788.8 |
| Notes payable and current maturities of long-term debt | (301.4) | (18.4) |
| Accounts payable | (170.9) | (148.3) |
| Other current liabilities | (517.2) | (503.5) |
| Total current liabilities | (989.5) | (670.2) |
| Working capital | $ 894.5 | $ 1,118.6 |

Cash and cash equivalents of $77.6 million as of 2016 year end decreased $15.2 million from 2015 year-end levels primarily due to (i) the funding of $915.0 million of new finance receivables; (ii) the funding of $160.4 million, net of cash acquired, for the acquisitions of Car-O-Liner and Sturtevant Richmont; (iii) dividend payments to shareholders of $147.5 million; (iv) the repurchase of 758,000 shares of the company s common stock for $120.4 million; and (v) the funding of $74.3 million of capital expenditures. These decreases in cash and cash equivalents were partially offset by (i) $671.7 million of cash from collections of finance receivables; (ii) $576.1 million of cash generated from operations, net of $60.0 million of discretionary cash contributions to the company s domestic pension plans; (iii) $134.2 million of net proceeds from notes payable and other short-term borrowings; and (iv) $41.8 million of cash proceeds from stock purchase and option plan exercises.

Of the $77.6 million of cash and cash equivalents as of 2016 year end, $59.0 million was held outside of the United States. Snap-on maintains non-U.S. funds in its foreign operations to (i) provide adequate working capital; (ii) satisfy various regulatory requirements; and/or (iii) take advantage of business expansion opportunities as they arise. The repatriation of cash from certain foreign subsidiaries could have adverse net tax consequences on the company should Snap-on be required to pay and record U.S. income taxes and foreign withholding taxes on such funds. Alternatively, the repatriation of cash from certain other foreign subsidiaries could result in favorable net tax consequences for the company. Snap-on periodically evaluates its cash held outside the United States and may pursue opportunities to repatriate certain foreign cash amounts to the extent that it does not incur unfavorable net tax consequences.

Trade and other accounts receivable net of $598.8 million as of 2016 year end increased $36.3 million from 2015 year-end levels primarily due to higher sales and an increase in days sales outstanding, and $21.5 million of receivables related to the Car-O-Liner and Sturtevant Richmont acquisitions, partially offset by $13.8 million of foreign currency translation. Days sales outstanding (trade and other accounts receivable net as of the respective period end, divided by the respective trailing 12 months sales, times 360 days) was 63 days at 2016 year end and 60 days at 2015 year end.

The current portions of net finance and contract receivables of $560.6 million as of 2016 year end compared to $529.4 million at 2015 year end. The long-term portions of net finance and contract receivables of $1,221.2 million as of 2016 year end compared to $1,039.3 million at 2015 year end. The combined $213.1 million increase in net current and long-term finance and contract receivables over 2015 year-end levels is primarily due to continued growth of the company s financial services portfolio, partially offset by $15.1 million of foreign currency translation.

Inventories net of $530.5 million as of 2016 year end increased $32.7 million from 2015 year-end levels primarily due to $21.5 million of inventories related to the Car-O-Liner and Sturtevant Richmont acquisitions, as well as to support continued higher customer demand and new product introductions, partially offset by $17.8 million of foreign currency translation. As of 2016 and 2015 year end, inventory turns (trailing 12 months of cost of goods sold, divided by the average of the beginning and ending inventory balance for the trailing 12 months) were 3.3 turns and 3.5 turns, respectively. Inventories accounted for using the first-in, first-out ( FIFO ) method as of 2016 and 2015 year end approximated 59% and 57%, respectively, of total inventories. All other inventories are accounted for using the last-in, first-out ( LIFO ) method. The company s LIFO reserve was $73.2 million and $73.3 million as 2016 and 2015 year end, respectively.

Notes payable and current maturities of long-term debt of $301.4 million as of 2016 year end consisted of $150 million of the 2017 Notes, $130 million of commercial paper borrowings and $21.4 million of other notes. Notes payable at 2015 year end totaled $18.4 million and there were no commercial paper borrowings outstanding. As of 2015 year end, the 2017 Notes were included in Long-term debt on the accompanying Consolidated Balance Sheet as their scheduled maturity was in excess of one year of the 2015 year-end balance sheet date.

Average notes payable outstanding, including commercial paper borrowings, were $49.3 million and $78.5 million in 2016 and 2015, respectively. The weighted-average interest rate of 7.09% in 2016 increased from 4.36% last year primarily due to higher interest rates on local borrowings in emerging growth markets (where interest rates are generally higher). Average commercial paper borrowings were $26.6 million and $52.2 million in 2016 and 2015, respectively, and the weighted-average interest rate of 0.73% in 2016 increased from 0.41% last year. At 2016 year end, the weighted-average interest rate on outstanding notes payable of 2.85% compared with 15.82% at 2015 year end. The 2016 year-end rate benefited from lower interest rates on commercial paper borrowings. The 2015 year-end rate reflected higher rates on local borrowings in emerging growth markets; no commercial paper was outstanding at 2015 year end.

Accounts payable of $170.9 million as of 2016 year end increased $22.6 million from 2015 year-end levels primarily due to the timing of payments and $10.9 million of accounts payable related to the Car-O-Liner and Sturtevant Richmont acquisitions, partially offset by $3.8 million of foreign currency translation.

Other accrued liabilities of $307.9 million as of 2016 year end increased $11.9 million from 2015 year-end levels primarily due to a $7.6 million increase in derivative liabilities and $6.4 million of other accrued liabilities related to the Car-O-Liner and Sturtevant Richmont acquisitions, partially offset by $8.3 million of foreign currency translation.

Long-term debt of $708.8 million as of 2016 year end consisted of (i) $250 million of the 2018 Notes; (ii) $200 million of unsecured 6.70% notes that mature in 2019; (iii) $250 million of unsecured 6.125% notes that mature in 2021; and (iv) $8.8 million of other long-term debt, including fair value adjustments related to interest rate swaps. As of 2016 year end, the 2018 Notes were included in Long-term debt on the accompanying Consolidated Balance Sheet as their scheduled maturity was in excess of one year of the 2016 year-end balance sheet date.

Snap-on has a five-year, $700 million multi-currency revolving credit facility that terminates on December 15, 2020 (the Credit Facility ); as of December 31, 2016, no amounts were outstanding under the Credit Facility. Borrowings under the Credit Facility bear interest at varying rates based on Snap-on s then-current, long-term debt ratings. The Credit Facility s financial covenant requires that Snap-on maintain, as of each fiscal quarter end, either (i) a ratio not greater than 0.60 to 1.00 of consolidated net debt (consolidated debt net of certain cash adjustments) to the sum of such consolidated net debt plus total equity and less accumulated other comprehensive income or loss (the Debt Ratio ); or (ii) a ratio not greater than 3.50 to 1.00 of such consolidated net debt to earnings before interest, taxes, depreciation, amortization and certain other adjustments for the preceding four fiscal quarters then ended (the Debt to EBITDA Ratio ). Snap-on may, up to two times during any five-year period during the term of the Credit Facility (including any extensions thereof), increase the maximum Debt Ratio to 0.65 to 1.00 and/or increase the maximum Debt to EBITDA Ratio to 3.75 to 1.00 for four consecutive fiscal quarters in connection with certain material acquisitions (as defined in the related credit agreement). As of 2016 year end, the company s actual ratios of 0.24 and 1.02, respectively, were both within the permitted ranges set forth in this financial covenant. Snap-on generally issues commercial paper to fund its financing needs on a short-term basis and uses the Credit Facility as back-up liquidity to support such commercial paper issuances.

Snap-on s Credit Facility and other debt agreements also contain certain usual and customary borrowing, affirmative, negative and maintenance covenants. As of 2016 year end, Snap-on was in compliance with all covenants of its Credit Facility and other debt agreements.

Snap-on believes it has sufficient available cash and access to both committed and uncommitted credit facilities to cover its expected funding needs on both a short-term and long-term basis. Snap-on manages its aggregate short-term borrowings so as not to exceed its availability under the revolving Credit Facility. Snap-on believes that it can access short-term debt markets, predominantly through commercial paper issuances and existing lines of credit, to fund its short-term requirements and to ensure near-term liquidity. Snap-on regularly monitors the credit and financial markets and may take advantage of what it believes are favorable market conditions to issue long-term debt to further improve its liquidity and capital resources in 2017. Near-term liquidity requirements for Snap-on include scheduled debt payments (including the repayment of the 2018 Notes; as noted above, the 2017 Notes were repaid on January 17, 2017), payments of interest and dividends, funding to support new receivables originated by our financial services businesses, capital expenditures, working capital, the funding of pension plans, and funding for share repurchases and acquisitions, as they arise. Snap-on intends to make contributions of $7.1 million to its foreign pension plans and $2.3 million to its domestic pension plans in 2017, as required by law. Depending on market and other conditions, Snap-on may make discretionary cash contributions to its pension plans in 2017.

Snap-on s long-term financing strategy is to maintain continuous access to the debt markets to accommodate its liquidity needs, including the use of commercial paper, additional fixed-term debt and/or securitizations.

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

*Operating Activities*

Net cash provided by operating activities of $576.1 million in 2016 increased $68.9 million from $507.2 million in 2015 primarily due to $69.0 million of higher net earnings. Net cash provided by operating activities was $403.1 million in 2014.

Depreciation expense was $61.4 million in 2016, $57.8 million in 2015 and $54.8 million in 2014. Amortization expense was $24.2 million in 2016 and $24.7 million in both 2015 and 2014. See Note 6 to the Consolidated Financial Statements for information on goodwill and other intangible assets.

*Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)*

*Investing Activities*

Net cash used by investing activities of $473.4 million in 2016 included additions to finance receivables of $915.0 million, partially offset by collections of $671.7 million. Net cash used by investing activities of $306.4 million in 2015 included additions to finance receivables of $844.2 million, partially offset by collections of $624.8 million. Net cash used by investing activities of $273.2 million in 2014 included additions to finance receivables of $746.2 million, partially offset by collections of $591.4 million. Finance receivables are comprised of extended-term installment payment contracts to both technicians and independent shop owners (i.e., franchisees customers) to enable them to purchase tools and diagnostic and equipment products on an extended-term payment plan, generally with average payment terms approaching four years.

Net cash used by investing activities in 2016 also included, on a preliminary basis, a total of $160.4 million (net of $4.3 million of cash acquired) for the acquisitions of Car-O-Liner and Sturtevant Richmont. Net cash used by investing activities in 2015 included $11.8 million for the acquisition of Ecotechnics. Net cash used by investing activities in 2014 included $41.3 million for the acquisition of Pro-Cut. See Note 2 to the Consolidated Financial Statements for information on acquisitions.

Capital expenditures in 2016, 2015 and 2014 totaled $74.3 million, $80.4 million and $80.6 million, respectively. Capital expenditures in all three years included continued investments related to the company s execution of its strategic Value Creation Processes and strategic growth initiatives. The company also invested in (i) new product, efficiency, safety and cost reduction initiatives that are intended to expand and improve its manufacturing capabilities worldwide; (ii) new production and machine tooling to enhance manufacturing operations, as well as ongoing replacements of manufacturing and distribution equipment, particularly in the United States; (iii) the ongoing replacement and enhancement of the company s global enterprise resource planning (ERP) management information systems; and (iv) improvements in the company s corporate headquarters and research and development facilities in Kenosha, Wisconsin. Capital expenditures in 2015 also included the purchase of a previously leased manufacturing facility in the United Kingdom. Snap-on believes that its cash generated from operations, as well as its available cash on hand and funds available from its credit facilities will be sufficient to fund the company s capital expenditure requirements in 2017.

*Financing Activities*

Net cash used by financing activities of $116.0 million in 2016 included $134.2 million of proceeds from a net increase in notes payable and other short-term borrowings. Net cash used by financing activities of $236.7 million in 2015 included the net repayment of $34.0 million of notes payable and other short-term borrowings. Net cash used by financing activities of $212.1 million in 2014 included the repayment of $100 million of unsecured notes at maturity, partially offset by $45.0 million of proceeds from a net increase in notes payable and other short-term borrowings.

Proceeds from stock purchase and option plan exercises totaled $41.8 million in 2016, $41.6 million in 2015 and $33.0 million in 2014. Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and franchisee stock purchase plans, stock options and other corporate purposes. In 2016, Snap-on repurchased 758,000 shares of its common stock for $120.4 million under its previously announced share repurchase programs. As of 2016 year end, Snap-on had remaining availability to repurchase up to an additional $207.2 million in common stock pursuant to its Board of Directors (the Board ) authorizations. The purchase of Snap-on common stock is at the company s discretion, subject to prevailing financial and market conditions. Snap-on repurchased 723,000 shares of its common stock for $110.4 million in 2015 and Snap-on repurchased 680,000 shares of its common stock for $79.3 million in 2014. Snap-on believes that its cash generated from operations, available cash on hand, and funds available from its credit facilities, will be sufficient to fund the company s share repurchases, if any, in 2017.

Snap-on has paid consecutive quarterly cash dividends, without interruption or reduction, since 1939. Cash dividends paid in 2016, 2015 and 2014 totaled $147.5 million, $127.9 million and $107.6 million, respectively. On November 3, 2016, the company announced that its Board increased the quarterly cash dividend by 16.4% to $0.71 per share ($2.84 per share annualized). Quarterly dividends in 2016 were $0.71 per share in the fourth quarter and $0.61 per share in the first three quarters ($2.54 per share for the year). Quarterly dividends in 2015 were $0.61 per share in the fourth quarter and $0.53 per share in the first three quarters ($2.20 per share for the year). Quarterly dividends in 2014 were $0.53 per share in the fourth quarter and $0.44 per share in the first three quarters ($1.85 per share for the year).

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Cash dividends paid per common share | $ 2.54 | $ 2.20 | $ 1.85 |
| Cash dividends paid as a percent of prior-year retained earnings | 4.9% | 4.8% | 4.6% |

Snap-on believes that its cash generated from operations, available cash on hand and funds available from its credit facilities will be sufficient to pay dividends in 2017.

**Off-Balance-Sheet Arrangements**

Except as included below in the section labeled Contractual Obligations and Commitments and Note 15 to the Consolidated Financial Statements, the company had no off-balance-sheet arrangements as of 2016 year end.

**Contractual Obligations and Commitments**

A summary of Snap-on s future contractual obligations and commitments as of 2016 year end are as follows:

| *(Amounts in millions)* | Total | 2017 | 2018-2019 | 2020-2021 | 2022 and thereafter |
|---|---|---|---|---|---|
| Contractual obligations: | | | | | |
| Notes payable and current maturities of long-term debt | $ 301.4 | $ 301.4 | $ | $ | $ |
| Long-term debt | 708.8 | | 450.0 | 258.8 | |
| Interest on fixed rate debt | 111.9 | 39.7 | 46.6 | 25.6 | |
| Operating leases | 81.5 | 23.0 | 32.2 | 15.8 | 10.5 |
| Capital leases | 20.2 | 3.7 | 6.2 | 4.7 | 5.6 |
| Purchase obligations | 54.0 | 45.8 | 8.2 | | |
| Total | $ 1,277.8 | $ 413.6 | $ 543.2 | $ 304.9 | $ 16.1 |

On January 17, 2017, Snap-on repaid the 2017 Notes (included in the table above) upon maturity with available cash and cash generated from issuances of commercial paper.

Snap-on intends to make contributions of $7.1 million to its foreign pension plans and $2.3 million to its domestic pension plans in 2017, as required by law. Depending on market and other conditions, Snap-on may make discretionary cash contributions to its pension plans in 2017. Snap-on has not presented estimated pension and postretirement funding contributions in the table above as the funding can vary from year to year based on changes in the fair value of the plan assets and actuarial assumptions; see Note 11 and Note 12 to the Consolidated Financial Statements for information on the company s benefit plans and payments.

Due to the uncertainty of the timing of settlements with taxing authorities, Snap-on is unable to make reasonably reliable estimates of the period of cash settlement of unrecognized tax benefits for its remaining uncertain tax liabilities. As a result, $9.4 million of unrecognized tax benefits have been excluded from the table above; see Note 8 to the Consolidated Financial Statements for information on income taxes.

**Environmental Matters**

Snap-on is subject to various federal, state and local government requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. Snap-on s policy is to comply with these requirements and the company believes that, as a general matter, its policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage, and of resulting financial liability, in connection with its business. Some risk of environmental damage is, however, inherent in some of Snap-on s operations and products, as it is with other companies engaged in similar businesses.

Snap-on is and has been engaged in the handling, manufacture, use and disposal of many substances classified as hazardous or toxic by one or more regulatory agencies. Snap-on believes that, as a general matter, its handling, manufacture, use and disposal of these substances are in accordance with environmental laws and regulations. It is possible, however, that future knowledge or other developments, such as improved capability to detect substances in the environment or increasingly strict environmental laws and standards and enforcement policies, could bring into question the company s handling, manufacture, use or disposal of these substances.

**New Accounting Standards**

See Note 1 to the Consolidated Financial Statements for information on new accounting standards.

**Critical Accounting Policies and Estimates**

The Consolidated Financial Statements and related notes contain information that is pertinent to management s discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are generally based on historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources, as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates.

In addition to the company s significant accounting policies described in Note 1 to the Consolidated Financial Statements, Snap-on considers the following policies and estimates to be the most critical in understanding the judgments that are involved in the preparation of the company s consolidated financial statements and the uncertainties that could impact the company s financial position, results of operations and cash flows.

*Impairment of Goodwill and Other Indefinite-lived Intangible Assets:* Goodwill and other indefinite-lived intangible assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. Annual impairment tests are performed by the company in the second quarter of each year using information available as of fiscal April month end.

Snap-on evaluates the recoverability of goodwill by estimating the future discounted cash flows of the businesses to which the goodwill relates. Estimated cash flows and related goodwill are grouped at the reporting unit level. The company has determined that its reporting units for testing goodwill impairment are its operating segments or components of an operating segment that constitute a business for which discrete financial information is available and for which segment management regularly reviews the operating results. Within its four reportable operating segments, the company has identified 11 reporting units.

Snap-on evaluates the recoverability of goodwill by utilizing an income approach that estimates the fair value of the future discounted cash flows of the reporting units to which the goodwill relates. The future projections, which are based on both past performance and the projections

and assumptions used in the company s operating plans, are subject to change as a result of changing economic and competitive conditions. This approach reflects management s internal outlook at the reporting units, which management believes provides the best determination of value due to management s insight and experience with the reporting units. Significant estimates used by management in the discounted cash flows methodology include estimates of future cash flows based on expected growth rates, price increases, working capital levels, expected benefits from RCI initiatives, and a weighted-average cost of capital that reflects the specific risk profile of the reporting unit being tested. The company s methodologies for valuing goodwill are applied consistently on a year-over-year basis; the assumptions used in performing the second quarter 2016 impairment calculations were evaluated in light of then-current market and business conditions. Snap-on continues to believe that the future discounted cash flow valuation model provides the most reasonable and meaningful fair value estimate based upon the reporting units projections of future operating results and cash flows and replicates how market participants would value the company s reporting units in an orderly transaction.

In the event the fair value of a reporting unit is less than the carrying value, including goodwill, the company would then perform an additional assessment that would compare the implied fair value of goodwill with the carrying amount of goodwill. The determination of implied fair value of goodwill would require management to compare the estimated fair value of the reporting unit to the estimated fair value of the assets and liabilities of the reporting unit; if necessary, the company may consult with valuation specialists to assist with the assessment of the estimated fair value of the assets and liabilities of the reporting unit. If the implied fair value of the goodwill is less than the carrying value, an impairment loss would be recorded.

Snap-on also evaluates the recoverability of its indefinite-lived trademarks by utilizing an income approach that estimates the fair value of the future discounted cash flows of each of its trademarks. The future projections, which are based on both past performance and the projections and assumptions used in the company s operating plans, are subject to change as a result of changing economic and competitive conditions. Significant estimates used by management in the discounted cash flows methodology include estimates of future cash flows based on expected growth and royalty rates, expected synergies, and a weighted-average cost of capital that reflects the specific risk profile of the trademark being tested. The company s methodologies for valuing trademarks are applied consistently on a year-over-year basis; the assumptions used in performing the second quarter 2016 impairment calculations were evaluated in light of then-current market and business conditions. Snap-on continues to believe that the future discounted cash flow valuation model provides the most reasonable and meaningful fair value estimate based upon the trademarks projected future cash flows and replicates how market participants would value the company s trademarks in an orderly transaction.

Inherent in fair value determinations are significant judgments and estimates, including material assumptions about future revenue, profitability and cash flows, the company s operational plans and its interpretation of current economic indicators. Should the operations of the businesses with which goodwill or other indefinite-lived intangible assets are associated incur significant declines in profitability and cash flow due to significant and long-term deterioration in macroeconomic, industry and market conditions, the loss of key customers, changes in technology or markets, significant changes in key personnel or litigation, a significant and sustained decrease in share price and/or other events, including effects from the sale or disposal of a reporting unit, some or all of the recorded goodwill or other indefinite-lived intangible assets could be subject to impairment and could result in a material adverse effect on Snap-on s financial position or results of operations.

Snap-on completed its annual impairment testing of goodwill and other indefinite-lived intangible assets in the second quarter of 2016, the results of which did not result in any impairment. As of 2016 year end, the company has no accumulated impairment losses. Although the company consistently uses the same methods in developing the assumptions and estimates underlying the fair value calculations, such estimates are uncertain by nature and can vary from actual results. In performing its annual impairment testing the company performed a sensitivity analysis on the material assumptions used in the discounted cash flow valuation models for each of its 11 reporting units. Based on the company s second quarter 2016 impairment testing and assuming a hypothetical 10% decrease in the estimated fair values of each of its 11 reporting units, the hypothetical fair value of each of the company s 11 reporting units would have been greater than its carrying value. See Note 6 to the Consolidated Financial Statements for further information about goodwill and other intangible assets.

*Pension Benefits:* The pension benefit obligation and related pension expense are calculated in accordance with GAAP and are impacted by certain actuarial assumptions. Changes in these assumptions are primarily influenced by factors outside of Snap-on s control, such as changes in economic conditions, and can have a significant effect on the amounts reported in the financial statements. Snap-on believes that the two most critical assumptions are (i) the expected return on plan assets; and (ii) the assumed discount rate.

Snap-on s domestic pension plans have a long-term investment horizon and a total return strategy that emphasizes a capital growth objective. In 2016, the long-term investment performance objective for Snap-on s domestic plans assets was to achieve net of expense returns that met or exceeded the 7.6% domestic expected return on plan assets assumption. Snap-on uses a three-year, market-related value asset method of amortizing the difference between actual and expected returns on its domestic plans assets. As of 2016 year end, Snap-on s domestic pension plans assets comprised approximately 86% of the company s worldwide pension plan assets.

Based on forward-looking capital market expectations, Snap-on selected an expected return on plan assets assumption for its U.S. pension plans of 7.5%, a decrease of 10 bps from 2016, to be used in determining pension expense for 2017. In estimating the domestic expected return on plan assets, Snap-on utilizes a nominal returns forecasting method. For each asset class, future returns are estimated by identifying the premium of riskier asset classes over lower risk alternatives. The methodology constructs expected returns using a building block approach to the individual components of total return. These forecasts are stated in both nominal and real (after inflation) terms. This process first considers the long-term historical return premium based on the longest set of data available for each asset class. These premiums, calculated using the geometric mean, are then adjusted based on current relative valuation levels, macro-economic conditions, and the expected alpha related to active investment management. The asset return assumption is also adjusted by an implicit expense load for estimated administrative and investment-related expenses. Since asset allocation is a key determinant of expected investment returns, the current and expected mix of plan assets are also considered when setting the assumption.

Pension expense increases as the expected rate of return on plan assets decreases. Lowering the expected rate of return assumption for Snap-on s domestic pension plans assets by 50 bps would have increased Snap-on s 2016 domestic pension expense by approximately $4.7 million.

The objective of Snap-on s discount rate assumption is to reflect the rate at which the pension benefits could be effectively settled. In making this determination, the company takes into account the timing and amount of benefits that would be available under the plans. The domestic discount rate as of 2016 and 2015 year end was selected based on a cash flow matching methodology developed by the company s outside actuaries and which incorporates a review of current economic conditions. This methodology matches the plans yearly projected cash flows for benefits and service costs to those of hypothetical bond portfolios using high-quality, AA rated or better, corporate bonds from either Moody s Investors Service or Standard & Poor s credit rating agencies available at the measurement date. This technique calculates bond portfolios that produce adequate cash flows to pay the plans projected yearly benefits and then selects the portfolio with the highest yield and uses that yield as the recommended discount rate.

The selection of the 4.5% weighted-average discount rate for Snap-on s domestic pension plans as of 2016 year end (compared to 4.7% as of 2015 year end) represents the single rate that produces the same present value of cash flows as the estimated benefit plan payments. Lowering Snap-on s domestic discount rate assumption by 50 bps would have increased Snap-on s 2016 domestic pension expense and projected benefit obligation by approximately $6.7 million and $65.3 million, respectively. As of 2016 year end, Snap-on s domestic projected benefit obligation comprised approximately 83% of Snap-on s worldwide projected benefit obligation. The weighted-average discount rate for Snap-on s foreign pension plans of 2.9% (compared to 3.7% as of 2015 year end) represents the single rate that produces the same present value of cash flows as the estimated benefit plan payments. Lowering Snap-on s foreign discount rate assumption by 50 bps would have increased Snap-on s 2016 foreign pension expense and projected benefit obligation by approximately $1.7 million and $23.4 million, respectively.

Actuarial gains and losses in excess of 10 percent of the greater of the projected benefit obligation or market-related value of assets are amortized on a straight-line basis over the average remaining service period of active participants or over the average remaining life expectancy for plans with primarily inactive participants. Prior service costs and credits resulting from plan amendments are amortized in equal annual amounts over the average remaining service period of active participants or over the average remaining life expectancy for plans with primarily inactive participants.

To determine the 2017 net periodic benefit cost, Snap-on is using weighted-average discount rates for its domestic and foreign pension plans of 4.5% and 2.9%, respectively, and an expected return on plan assets for its domestic pension plans of 7.5%. The expected returns on plan assets for foreign pension plans ranged from 1.8% and 6.3% as of 2016 year end. The net change in these two key assumptions from those used in 2016 is expected to increase pension expense in 2017. Other factors, such as changes in plan demographics and discretionary contributions, may further increase or decrease pension expense in 2017. See Note 11 to the Consolidated Financial Statements for further information on pension plans.

*Allowances for Doubtful Accounts on Finance and Contract Receivables:* The allowances for doubtful accounts on finance and contract receivables are maintained at levels management believes are adequate to cover probable losses inherent in Snap-on s finance and contract receivables portfolios as of the measurement date. The allowances represent management s estimate of the losses inherent in the company s receivables portfolios based on ongoing assessments and evaluations of collectability and historical loss experience. Determination of the proper level of allowances by portfolio requires management to exercise significant judgment about the timing, frequency and severity of losses that could materially affect the provision for doubtful accounts and, as a result, net earnings. The allowances take into consideration numerous quantitative and qualitative factors that include receivable type, historical loss experience, loss migration, delinquency trends, collection experience, current economic conditions and credit risk characteristics. Some of these factors are influenced by items such as the customers financial condition, debt-servicing ability, past payment experience, and credit bureau and proprietary Snap-on credit model information, as well as the value of the underlying collateral. Changes in economic conditions and assumptions, including the resulting credit quality metrics relative to the performance of the finance and contract receivables portfolios, create uncertainty and could result in changes to both the allowances and provisions for doubtful accounts.

Management utilizes established policies and procedures in an effort to ensure the estimates and assumptions are well controlled, reviewed and consistently applied. As of December 31, 2016, the ratios of the allowances for doubtful accounts to finance and contract receivables (the allowance ratios ) were 3.34% and 1.03%, respectively. As of January 2, 2016, the respective allowance ratios were 3.04% and 1.25%. While management believes it exercises prudent judgment and applies reasonable assumptions in establishing its estimates for allowances for finance and contract receivables, there can be no assurance that changes in economic conditions or other factors would not adversely impact the financial health of our customers and result in changes to the estimates used in the allowance calculations. For reference, a 100 bps increase in the allowance ratios for both finance and contract receivables as of December 31, 2016, would have increased Snap-on s 2016 provision expense and related allowances for doubtful accounts by approximately $14.6 million and $3.8 million, respectively.

For additional information on Snap-on s allowances for doubtful accounts, see Note 1 and Note 3 to the Consolidated Financial Statements.

**Outlook**

Snap-on expects to make continued progress in 2017 along its defined runways for coherent growth, leveraging capabilities already demonstrated in the automotive repair arena and developing and expanding its professional customer base, not only in automotive repair, but in adjacent markets, additional geographies and other areas, including extending in critical industries, where the cost and penalties for failure can be high. In pursuit of these initiatives, Snap-on expects that capital expenditures in 2017 will be in a range of $80 million to $90 million. Snap-on also anticipates that its full year 2017 effective income tax rate will be comparable to its 2016 full year rate.

**Item 7A: Quantitative and Qualitative Disclosures About Market Risk**

**Market, Credit and Economic Risks**

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. Snap-on is exposed to market risk from changes in interest rates and foreign currency exchange rates, including as a result of the recent weakening of the British pound vis-à-vis the U.S. dollar following the United Kingdom s referendum vote to exit from the European Union. Snap-on is also exposed to market risk associated with the stock-based portion of its deferred compensation plans. Snap-on monitors its exposure to these risks and attempts to manage the underlying economic exposures through the use of financial instruments such as foreign currency forward contracts, interest rate swap agreements, treasury lock agreements and prepaid equity forward agreements ( equity forwards ). Snap-on does not use derivative instruments for speculative or trading purposes. Snap-on s broad-based business activities help to reduce the impact that volatility in any particular area or related areas may have on its operating earnings as a whole. Snap-on s management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks.

**Foreign Currency Risk Management**

Snap-on has significant international operations and is subject to certain risks inherent with foreign operations that include currency fluctuations. Foreign currency exchange risk exists to the extent that Snap-on has payment obligations or receipts denominated in currencies other than the functional currency, including intercompany loans denominated in foreign currencies. To manage these exposures, Snap-on identifies naturally offsetting positions and then purchases hedging instruments to protect the residual net exposures. See Note 10 to the Consolidated Financial Statements for information on foreign currency risk management.

**Interest Rate Risk Management**

Snap-on aims to control funding costs by managing the exposure created by the differing maturities and interest rate structures of Snap-on s borrowings through the use of interest rate swap agreements. Treasury lock agreements are used from time to time to manage the potential change in interest rates in anticipation of the possible issuance of fixed rate debt. See Note 10 to the Consolidated Financial Statements for information on interest rate risk management.

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

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, as of 2016 and 2015 year end was $0.4 million and $0.6 million, respectively, on interest rate-sensitive financial instruments, and $0.8 million and $0.5 million, respectively, on foreign currency-sensitive financial instruments. The VAR model is a risk management tool and does not purport to represent actual losses in fair value that will be incurred by Snap-on, nor does it consider the potential effect of favorable changes in market factors.

**Stock-based Deferred Compensation Risk Management**

Snap-on aims to manage market risk associated with the stock-based portion of its deferred compensation plans through the use of equity forwards. Equity forwards are used to aid in offsetting the potential mark-to-market effect on stock-based deferred compensation from changes in Snap-on s stock price. Since stock-based deferred compensation liabilities increase as the company s stock price rises and decrease as the company s stock price declines, the equity forwards are intended to mitigate the potential impact on deferred compensation expense that may result from such mark-to-market changes. See Note 10 to the Consolidated Financial Statements for additional information on stock-based deferred compensation risk management.

**Credit Risk**

Credit risk is the possibility of loss from a customer s failure to make payments according to contract terms. Prior to extending credit, each customer is evaluated, taking into consideration various factors, including the customer s financial condition, debt-servicing ability, past payment experience, credit bureau information, and other financial and qualitative factors that may affect the customer s ability to repay, as well as the value of the underlying collateral. Credit risk is also monitored regularly through the use of internal proprietary custom scoring models to evaluate each transaction at the time of the application for credit and by periodically updating those credit scores for ongoing monitoring purposes. Snap-on evaluates credit quality through the use of an internal proprietary measuring system that provides a framework to analyze finance and contract receivables on the basis of risk factors of the individual obligor as well as transaction specific risk. The finance and contract receivables are typically monitored through an asset quality review process that closely monitors past due accounts and initiates a progressive collection action process when appropriate.

**Counterparty Risk**

Snap-on is exposed to credit losses in the event of non-performance by the counterparties to its various financial agreements, including its foreign currency forward contracts, interest rate swap agreements, treasury lock agreements and prepaid equity forward agreements. Snap-on does not obtain collateral or other security to support financial instruments subject to credit risk, but monitors the credit standing of the counterparties and generally enters into agreements with financial institution counterparties with a credit rating of A- or better. Snap-on does not anticipate non-performance by its counterparties, but cannot provide assurances.

**Economic Risk**

Economic risk is the possibility of loss resulting from economic instability in certain areas of the world. Snap-on continually monitors its exposure in these markets; for example, the company will be monitoring the potential effects of the United Kingdom s referendum vote to exit from the European Union, although it is too soon to know what effects the results of the referendum will have on the world economy or the company. Inflation has not had a significant impact on the company.

As a result of the above market, credit and economic risks, net earnings and revenues in any particular period may not be representative of full-year results and may vary significantly from year to year.

**Commodity Risk**

Snap-on is a purchaser of certain commodities such as steel, natural gas and electricity. The company is also a purchaser of components and parts that are integrated into the company s end products, as well as the purchaser of certain finished goods, all of which may contain various commodities including steel, aluminum, nickel, copper and others. Snap-on s supply of raw materials and purchased components are generally and readily available from numerous suppliers.

The principal raw material used in the manufacture of the company s products is steel, which the company purchases in competitive, price-sensitive markets. To meet Snap-on s high quality standards, the company s steel needs range from specialized alloys, which are available only from a limited group of approved suppliers, to commodity types of alloys. These raw materials have historically exhibited price and demand cyclicality. Some of these materials have been, and in the future may be, in short supply, particularly in the event of mill shutdowns or production cut backs. As some steel alloys require specialized manufacturing procedures, Snap-on could experience inventory shortages if it were required to use an alternative manufacturer on short notice. Additionally, unexpected price increases for raw materials could result in higher prices to Snap-on s customers or an erosion of the margins on its products.

Snap-on believes its ability to sell product is also dependent on the number of vehicles on the road, the number of miles driven and the general aging of vehicles. These factors affect the frequency, type and amount of service and repair performed on vehicles by technicians, and therefore affect the demand for the number of technicians, the prosperity of the technicians and, consequently, the demand technicians have for the company s tools, other products and services, and the value technicians place on those products and services. The use of other methods of

transportation, including more frequent use of public transportation, could result in a decrease in the use of privately operated vehicles. A decrease in the use of privately operated vehicles may lead to fewer repairs and less demand for the company s products.

To the extent that commodity prices increase and the company does not have firm pricing agreements with its suppliers, the company may experience margin declines to the extent that it is not able to increase the selling prices of its products.

**Item 8: Financial Statements and Supplementary Data**

The financial statements and schedules are listed in Item 15(a) and are incorporated by reference into this Item 8.

**Item 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A: Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

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

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act ), the company s management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2016 and, as permitted by the Public Company Accounting Oversight Board auditing standards, excluded from its assessment the company s October 31, 2016, acquisition of Car-O-Liner Holding AB (which represented less than 4% of total assets at December 31, 2016, and less than 1% of 2016 net sales). Based upon their evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 31, 2016, to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control**

There has not been any change in the company s internal control over financial reporting during the quarter ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, the company s internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)).

**Management s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework (2013)*. As permitted by the Public Company Accounting Oversight Board auditing standards, the company s October 31, 2016, acquisition of Car-O-Liner Holding AB (which represented less than 4% of total assets at December 31, 2016, and less than 1% of 2016 net sales) was excluded from the scope of management s assessment of internal control over financial reporting as of December 31, 2016. Based on this assessment, the company s management believes that, as of December 31, 2016, our internal control over financial reporting was effective at a reasonable assurance level. The company s internal control over financial reporting as of December 31, 2016, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its attestation report, which is included herein.

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Snap-on Incorporated:

We have audited the internal control over financial reporting of Snap-on Incorporated and subsidiaries (the Company ) as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Car-O-Liner Holding AB, which was acquired on October 31, 2016, and whose financial statements constitute less than 4% of the Company s total assets as of December 31, 2016, and less than 1% of the Company s 2016 net sales. Accordingly, our audit did not include the internal control over financial reporting at Car-O-Liner Holding AB. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2016, and our report dated February 9, 2017 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP
Milwaukee, Wisconsin

February 9, 2017

**Item 9B: Other Information**

None.

**PART III**

**Item 10: Directors, Executive Officers and Corporate Governance**

Incorporated by reference to sections entitled Item 1: Election of Directors, Corporate Governance Practices and Board Information and Other Information in Snap-on s 2017 Annual Meeting Proxy Statement, which is expected to be mailed to shareholders on or about March 10, 2017 (the 2017 Proxy Statement ).

The Section 16(a) filing compliance disclosure pursuant to Item 405 of Regulation S-K is contained in Snap-on s 2017 Proxy Statement in the section entitled Other Information Section 16(a) Beneficial Ownership Reporting Compliance, and is incorporated herein by reference.

Information regarding Snap-on s executive officers, including their ages, business experience (for at least the last five years) and titles as of December 31, 2016, is presented below:

*Nicholas T. Pinchuk* (70) Chairman of the Board of Directors since 2009, President and Chief Executive Officer since December 2007 and President and Chief Operating Officer from April to December 2007. Senior Vice President and President Worldwide Commercial & Industrial Group from 2002 to 2007. Prior to joining Snap-on, Mr. Pinchuk held various positions, including President of Global Refrigeration Operations and President of Asia Pacific Operations, at Carrier Corporation, a producer of air conditioning, heating and refrigeration systems, and a subsidiary of United Technologies Corporation. Mr. Pinchuk serves on the board of directors of Columbus McKinnon Corporation.

*Aldo J. Pagliari* (62) Senior Vice President Finance and Chief Financial Officer since 2010.

*Anup R. Banerjee* (66) Senior Vice President, Human Resources and Chief Development Officer since 2015, and President, Commercial Group from 2011 to 2015.

*Iain Boyd* (54) Vice President, Operations Development since 2015. Vice President Human Resources from 2007 to 2015.

*Constance R. Johnsen* (59) Vice President and Controller since 2003.

*Thomas L. Kassouf* (64) Senior Vice President and President Snap-on Tools Group since 2010.

*Jeanne M. Moreno* (62) Vice President and Chief Information Officer since 2005.

*Irwin M. Shur* (58) Vice President, General Counsel and Secretary since 2008.

*Thomas J. Ward* (64) Senior Vice President and President Repair Systems & Information Group since 2010.

There is no family relationship among the executive officers and there has been no involvement in legal proceedings during the past ten years that would be material to the evaluation of the ability or integrity of any of the executive officers. Executive officers may either be elected by the Board or may be appointed by the Chief Executive Officer at the regular meeting of the Board that follows the Annual Shareholders Meeting, which is ordinarily held in April each year, or at such other times as new positions are created or vacancies must be filled.

**Code of Ethics and Website Disclosure**

Snap-on has adopted a written code of ethics that applies to its Chief Executive Officer, Chief Financial Officer, Vice President and Controller, and all other financial officers and executives performing similar functions. Snap-on has posted a copy of the code of ethics in the Investors/Corporate Governance section on the company s website at www.snapon.com. Snap-on will also post any amendments to these documents, or information about any waivers granted to directors or executive officers with respect to the Code of Business Conduct and Ethics, on the company s website at www.snapon.com.

Snap-on intends to satisfy the disclosure requirements under Item 10 of Form 8-K regarding amendments to, or waivers from, the code of ethics by posting such information in the Investors section of its corporate website at www.snapon.com.

**Item 11: Executive Compensation**

The information required by Item 11 is contained in Snap-on s 2017 Proxy Statement in the sections entitled Executive Compensation, Board Compensation, Compensation Committee Report, and Other Information and is incorporated herein by reference.

**Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth information about Snap-on s equity compensation plans at 2016 year end:

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 3,366,358 [(1)] | $ 103.03 [(2)] | 5,059,920 [(3)] |
| Equity compensation plans not approved by security holders | 53,439 [(4)] | Not Applicable | [(5)] |
| Total | 3,419,797 | $ 103.03 [(2)] | 5,059,920 [(5)] |

(1) Includes (i) options to acquire 589,784 shares granted under the 2001 Incentive Stock and Awards Plan (the 2001 Plan ); (ii) options and stock appreciation rights to acquire 2,724,530 shares granted under the 2011 Incentive Stock and Awards Plan (the 2011 Plan, and collectively with the 2001 Plan, the Incentive Plans ); and (iii) 52,044 shares represented by deferred share units under the Directors Fee Plan. Excludes 50,528 shares issuable in connection with the vesting of restricted stock units and restricted stock under the 2001 Plan, and 288,072 shares issuable in connection with the vesting of performance share awards, restricted stock units and restricted stock under the 2011 Plan. Also excludes shares of common stock that may be issuable under the employee and franchisee stock purchase plans.

(2) Reflects only the weighted-average exercise price of outstanding stock options and stock appreciation rights granted under the Incentive Plans and does not include shares represented by deferred share units under the Directors Fee Plan and shares issuable in connection with the vesting of restricted stock units or performance units under the Incentive Plans for which there are no exercise prices. Also excludes shares of common stock that may be issuable under the employee and franchisee stock purchase plans.

(3) Includes (i) 4,121,252 shares reserved for issuance under the 2011 Plan; (ii) 158,105 shares reserved for issuance under the Directors Fee Plan; and (iii) 780,563 shares reserved for issuance under the employee stock purchase plan.

(4) Consists of deferred share units under Snap-on s Deferred Compensation Plan, which allows elected and appointed officers of Snap-on to defer all or a percentage of their respective annual salary and/or incentive compensation. The deferred share units are payable in shares of Snap-on common stock on a one-for-one basis and are calculated at fair market value. Shares of common stock delivered under the Deferred Compensation Plan are previously issued shares reacquired and held by Snap-on.

(5) The Deferred Compensation Plan provides that Snap-on will make available, as and when required, a sufficient number of shares of common stock to meet the needs of the plan. It further provides that such shares shall be previously issued shares reacquired and held by Snap-on.

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The additional information required by Item 12 is contained in Snap-on s 2017 Proxy Statement in the sections entitled Executive Compensation, Security Ownership of Certain Beneficial Owners and Management, and Other Information, and is incorporated herein by reference.

**Item 13: Certain Relationships and Related Transactions, and Director Independence**

Incorporated by reference to the sections entitled Corporate Governance Practices and Board Information Board Information and Other Information Transactions with the Company in Snap-on s 2017 Proxy Statement.

**Item 14: Principal Accounting Fees and Services**

Incorporated by reference to the section entitled Deloitte & Touche LLP Fee Disclosure in Snap-on s 2017 Proxy Statement.

**PART IV**

**Item 15: Exhibits, Financial Statement Schedules**

**Item 15(a): Documents Filed as Part of This Report:**
**1. List of Financial Statements**

Unless otherwise indicated, references to fiscal 2016 or 2016 refer to the fiscal year ended December 31, 2016; references to fiscal 2015 or 2015 refer to the fiscal year ended January 2, 2016; and references to fiscal 2014 or 2014 refer to the fiscal year ended January 3, 2015. References to 2016, 2015 and 2014 year end refer to December 31, 2016, January 2, 2016, and January 3, 2015, respectively.

The following consolidated financial statements of Snap-on and the Report of Independent Registered Public Accounting Firm thereon, are filed as part of this report:

Report of Independent Registered Public Accounting Firm.

Consolidated Statements of Earnings for the 2016, 2015 and 2014 fiscal years.

Consolidated Statements of Comprehensive Income for the 2016, 2015 and 2014 fiscal years.

Consolidated Balance Sheets as of 2016 and 2015 year end.

Consolidated Statements of Equity for the 2016, 2015 and 2014 fiscal years.

Consolidated Statements of Cash Flows for the 2016, 2015 and 2014 fiscal years.

Notes to Consolidated Financial Statements.

**2. Financial Statement Schedules**

All schedules are omitted because they are not applicable, or the required information is included in the consolidated financial statements or notes thereto.

**3. List of Exhibits**

The exhibits filed with or incorporated by reference in this report are as specified in the exhibit index included herein.

**Item 16: Form 10-K Summary**

None.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Snap-on Incorporated:

We have audited the accompanying consolidated balance sheets of Snap-on Incorporated and subsidiaries (the Company ) as of December 31, 2016, and January 2, 2016, and the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, such consolidated financial statements present fairly, in all material respects, the financial position of Snap-on Incorporated and subsidiaries as of December 31, 2016, and January 2, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 9, 2017 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Milwaukee, Wisconsin

February 9, 2017

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**Snap-on Incorporated Consolidated Statements of Earnings**

| *(Amounts in millions, except per share data)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net sales | $ 3,430.4 | $ 3,352.8 | $ 3,277.7 |
| Cost of goods sold | (1,720.8) | (1,704.5) | (1,693.4) |
| Gross profit | 1,709.6 | 1,648.3 | 1,584.3 |
| Operating expenses | (1,054.1) | (1,053.7) | (1,048.7) |
| Operating earnings before financial services | 655.5 | 594.6 | 535.6 |
| Financial services revenue | 281.4 | 240.3 | 214.9 |
| Financial services expenses | (82.7) | (70.1) | (65.8) |
| Operating earnings from financial services | 198.7 | 170.2 | 149.1 |
| Operating earnings | 854.2 | 764.8 | 684.7 |
| Interest expense | (52.2) | (51.9) | (52.9) |
| Other income (expense) net | (0.6) | (2.4) | (0.9) |
| Earnings before income taxes and equity earnings | 801.4 | 710.5 | 630.9 |
| Income tax expense | (244.3) | (221.2) | (199.5) |
| Earnings before equity earnings | 557.1 | 489.3 | 431.4 |
| Equity earnings, net of tax | 2.5 | 1.3 | 0.7 |
| Net earnings | 559.6 | 490.6 | 432.1 |
| Net earnings attributable to noncontrolling interests | (13.2) | (11.9) | (10.2) |
| Net earnings attributable to Snap-on Incorporated | $ 546.4 | $ 478.7 | $ 421.9 |
| Net earnings per share attributable to Snap-on Incorporated: | | | |
| Basic | $ 9.40 | $ 8.24 | $ 7.26 |
| Diluted | 9.20 | 8.10 | 7.14 |
| Weighted-average shares outstanding: | | | |
| Basic | 58.1 | 58.1 | 58.1 |
| Effect of dilutive securities | 1.3 | 1.0 | 1.0 |
| Diluted | 59.4 | 59.1 | 59.1 |

See Notes to Consolidated Financial Statements.

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**Snap-on Incorporated    Consolidated Statements of Comprehensive Income**

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Comprehensive income (loss): | | | |
| Net earnings | $ 559.6 | $ 490.6 | $ 432.1 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation* | (99.2) | (110.8) | (128.8) |
| Unrealized cash flow hedges, net of tax: | | | |
| Reclassification of cash flow hedges from accumulated other comprehensive loss | 8.8 | | |
| Reclassification of cash flow hedges to net earnings | (0.3) | (0.3) | (0.3) |
| Defined benefit pension and postretirement plans: | | | |
| Net prior service costs and credits and unrecognized loss | (93.3) | (48.3) | (136.1) |
| Income tax benefit | 30.7 | 19.4 | 47.9 |
| Net of tax | (62.6) | (28.9) | (88.2) |
| Amortization of net prior service costs and credits and unrecognized loss included in net periodic benefit cost | 30.1 | 38.0 | 22.0 |
| Income tax benefit | (11.1) | (14.0) | (8.1) |
| Net of tax | 19.0 | 24.0 | 13.9 |
| Total comprehensive income | 425.3 | 374.6 | 228.7 |
| Comprehensive income attributable to noncontrolling interests | (13.2) | (11.9) | (10.2) |
| Comprehensive income attributable to Snap-on Incorporated | $ 412.1 | $ 362.7 | $ 218.5 |

* There is no reclassification adjustment as there was no sale or liquidation of any foreign entity during any period presented.

See Notes to Consolidated Financial Statements.

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**Snap-on Incorporated Consolidated Balance Sheets**

| *(Amounts in millions, except share data)* | Fiscal Year End 2016 | 2015 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 77.6 | $ 92.8 |
| Trade and other accounts receivable net | 598.8 | 562.5 |
| Finance receivables net | 472.5 | 447.3 |
| Contract receivables net | 88.1 | 82.1 |
| Inventories net | 530.5 | 497.8 |
| Prepaid expenses and other assets | 116.5 | 106.3 |
| Total current assets | 1,884.0 | 1,788.8 |
| Property and equipment net | 425.2 | 413.5 |
| Deferred income tax assets | 72.8 | 60.4 |
| Long-term finance receivables net | 934.5 | 772.7 |
| Long-term contract receivables net | 286.7 | 266.6 |
| Goodwill | 895.5 | 790.1 |
| Other intangibles net | 184.6 | 195.0 |
| Other assets | 39.9 | 44.0 |
| Total assets | $ 4,723.2 | $ 4,331.1 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Notes payable and current maturities of long-term debt | $ 301.4 | $ 18.4 |
| Accounts payable | 170.9 | 148.3 |
| Accrued benefits | 52.8 | 52.1 |
| Accrued compensation | 89.8 | 91.0 |
| Franchisee deposits | 66.7 | 64.4 |
| Other accrued liabilities | 307.9 | 296.0 |
| Total current liabilities | 989.5 | 670.2 |
| Long-term debt | 708.8 | 861.7 |
| Deferred income tax liabilities | 13.1 | 14.3 |
| Retiree health care benefits | 36.7 | 37.9 |
| Pension liabilities | 246.5 | 227.8 |
| Other long-term liabilities | 93.4 | 88.5 |
| Total liabilities | 2,088.0 | 1,900.4 |
| Commitments and contingencies (Note 15) | | |
| Equity | | |
| Shareholders equity attributable to Snap-on Incorporated: | | |

| | | |
|---|---|---|
| Preferred stock (authorized 15,000,000 shares of $1 par value; none outstanding) | | |
| Common stock (authorized 250,000,000 shares of $1 par value; issued 67,400,250 and 67,392,545 shares, respectively) | 67.4 | 67.4 |
| Additional paid-in capital | 317.3 | 296.3 |
| Retained earnings | 3,384.9 | 2,986.9 |
| Accumulated other comprehensive loss | (498.5) | (364.2) |
| Treasury stock at cost (9,450,393 and 9,306,499 shares, respectively) | (653.9) | (573.7) |
| Total shareholders equity attributable to Snap-on Incorporated | 2,617.2 | 2,412.7 |
| Noncontrolling interests | 18.0 | 18.0 |
| Total equity | 2,635.2 | 2,430.7 |
| Total liabilities and equity | $ 4,723.2 | $ 4,331.1 |

See Notes to Consolidated Financial Statements.

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**Snap-on Incorporated Consolidated Statements of Equity**

| | Shareholders Equity Attributable to Snap-on Incorporated | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Amounts in millions, except share data)* | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Noncontrolling Interests | Total Equity |
| **Balance at December 28, 2013** | **$ 67.4** | **$ 225.1** | **$ 2,324.1** | **$ (44.8)** | **$ (458.6)** | **$ 17.2** | **$ 2,130.4** |
| Net earnings for 2014 | | | 421.9 | | | 10.2 | 432.1 |
| Other comprehensive loss | | | | (203.4) | | | (203.4) |
| Cash dividends $1.85 per share | | | (107.6) | | | | (107.6) |
| Stock compensation plans | | 15.7 | | | 34.6 | | 50.3 |
| Share repurchases 680,000 shares | | | | | (79.3) | | (79.3) |
| Tax benefit from certain stock options | | 13.9 | | | | | 13.9 |
| Dividend reinvestment plan and other | | | (1.2) | | | (9.9) | (11.1) |
| **Balance at January 3, 2015** | **67.4** | **254.7** | **2,637.2** | **(248.2)** | **(503.3)** | **17.5** | **2,225.3** |
| Net earnings for 2015 | | | 478.7 | | | 11.9 | 490.6 |
| Other comprehensive loss | | | | (116.0) | | | (116.0) |
| Cash dividends $2.20 per share | | | (127.9) | | | | (127.9) |
| Stock compensation plans | | 23.3 | | | 40.0 | | 63.3 |
| Share repurchases 723,000 shares | | | | | (110.4) | | (110.4) |
| Tax benefit from certain stock options | | 18.3 | | | | | 18.3 |
| Dividend reinvestment plan and other | | | (1.1) | | | (11.4) | (12.5) |
| **Balance at January 2, 2016** | **67.4** | **296.3** | **2,986.9** | **(364.2)** | **(573.7)** | **18.0** | **2,430.7** |
| Net earnings for 2016 | | | 546.4 | | | 13.2 | 559.6 |
| Other comprehensive loss | | | | (134.3) | | | (134.3) |
| Cash dividends $2.54 per share | | | (147.5) | | | | (147.5) |
| Stock compensation plans | | 21.0 | | | 40.2 | | 61.2 |
| Share repurchases 758,000 shares | | | | | (120.4) | | (120.4) |
| Other | | | (0.9) | | | (13.2) | (14.1) |
| **Balance at December 31, 2016** | **$ 67.4** | **$ 317.3** | **$ 3,384.9** | **$ (498.5)** | **$ (653.9)** | **$ 18.0** | **$ 2,635.2** |

See Notes to Consolidated Financial Statements.

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**Snap-on Incorporated Consolidated Statements of Cash Flows**

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Operating activities: | | | |
| Net earnings | $ 559.6 | $ 490.6 | $ 432.1 |
| Adjustments to reconcile net earnings to net cash provided (used) by operating activities: | | | |
| Depreciation | 61.4 | 57.8 | 54.8 |
| Amortization of other intangibles | 24.2 | 24.7 | 24.7 |
| Provision for losses on finance receivables | 44.0 | 31.6 | 27.4 |
| Provision for losses on non-finance receivables | 7.5 | 13.6 | 14.3 |
| Stock-based compensation expense | 31.0 | 39.8 | 38.1 |
| Excess tax benefits from stock-based compensation | | (18.3) | (13.9) |
| Deferred income tax provision (benefit) | 1.3 | (5.1) | 3.2 |
| Loss (gain) on sales of assets | 0.2 | (2.1) | 0.4 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | | |
| Increase in trade and other accounts receivable | (41.0) | (44.7) | (57.4) |
| Increase in contract receivables | (31.9) | (34.6) | (37.5) |
| Increase in inventories | (32.7) | (43.3) | (61.1) |
| Increase in prepaid and other assets | (11.9) | (28.2) | (50.9) |
| Increase (decrease) in accounts payable | 16.3 | 4.7 | (7.0) |
| Increase (decrease) in accruals and other liabilities | (51.9) | 20.7 | 35.9 |
| Net cash provided by operating activities | 576.1 | 507.2 | 403.1 |
| Investing activities: | | | |
| Additions to finance receivables | (915.0) | (844.2) | (746.2) |
| Collections of finance receivables | 671.7 | 624.8 | 591.4 |
| Capital expenditures | (74.3) | (80.4) | (80.6) |
| Acquisitions of businesses, net of cash acquired | (160.4) | (11.8) | (41.3) |
| Disposals of property and equipment | 2.2 | 3.5 | 0.8 |
| Other | 2.4 | 1.7 | 2.7 |
| Net cash used by investing activities | (473.4) | (306.4) | (273.2) |
| Financing activities: | | | |
| Repayment of long-term debt | | | (100.0) |
| Proceeds from notes payable | 4.5 | 7.1 | 4.9 |
| Repayments of notes payable | (5.3) | (6.3) | (1.6) |
| Net increase (decrease) in other short-term borrowings | 135.0 | (34.8) | 41.7 |
| Cash dividends paid | (147.5) | (127.9) | (107.6) |
| Purchases of treasury stock | (120.4) | (110.4) | (79.3) |
| Proceeds from stock purchase and option plans | 41.8 | 41.6 | 33.0 |
| Excess tax benefits from stock-based compensation | | 18.3 | 13.9 |
| Other | (24.1) | (24.3) | (17.1) |
| Net cash used by financing activities | (116.0) | (236.7) | (212.1) |

| | | | |
|---|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | (1.9) | (4.2) | (2.5) |
| Decrease in cash and cash equivalents | (15.2) | (40.1) | (84.7) |
| Cash and cash equivalents at beginning of year | 92.8 | 132.9 | 217.6 |
| Cash and cash equivalents at end of year | $ 77.6 | $ 92.8 | $ 132.9 |
| Supplemental cash flow disclosures: | | | |
| Cash paid for interest | $ (51.0) | $ (50.8) | $ (52.8) |
| Net cash paid for income taxes | (247.3) | (191.9) | (191.2) |

See Notes to Consolidated Financial Statements.

*Notes to Consolidated Financial Statements*

**Note 1: Summary of Accounting Policies**

**Principles of consolidation and presentation:** The Consolidated Financial Statements include the accounts of Snap-on Incorporated and its wholly-owned and majority-owned subsidiaries (collectively, Snap-on or the company ).

Snap-on accounts for investments in unconsolidated affiliates where Snap-on has a greater than 20% but less than 50% ownership interest under the equity method of accounting. Investments in unconsolidated affiliates of $15.2 million as of December 31, 2016, and $13.3 million as of January 2, 2016, are included in Other assets on the accompanying Consolidated Balance Sheets; no equity investment dividends were received in any period presented. In the normal course of business, the company may purchase products or services from, or sell products or services to, unconsolidated affiliates; purchases from unconsolidated affiliates were $12.9 million, $13.4 million and $15.6 million in 2016, 2015 and 2014, respectively, and sales to unconsolidated affiliates were $0.2 million in 2016 and zero in both 2015 and 2014. The Consolidated Financial Statements do not include the accounts of the company s independent franchisees. Snap-on s Consolidated Financial Statements are prepared in conformity with generally accepted accounting principles in the United States of America ( GAAP ). All intercompany accounts and transactions have been eliminated.

**Fiscal year accounting period:** Snap-on s fiscal year ends on the Saturday that is on or nearest to December 31. The 2016 fiscal year ended on December 31, 2016 ( 2016 ) and contained 52 weeks of operating results. The 2015 fiscal year ended on January 2, 2016 ( 2015 ) and contained 52 weeks of operating results. The 2014 fiscal year ended on January 3, 2015 ( 2014 ) and contained 53 weeks of operating results; the impact of the additional week of operations was not material to Snap-on s 2014 net sales or net earnings.

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

**Financial instruments:** The fair value of the company s derivative financial instruments is generally determined using quoted prices in active markets for similar assets and liabilities. The carrying value of the company s non-derivative financial instruments either approximates fair value, due to their short-term nature, or the amount disclosed for fair value is based upon a discounted cash flow analysis or quoted market values. See Note 10 for further information on financial instruments.

**Revenue recognition:** Snap-on recognizes revenue from the sale of tools and diagnostic and equipment products when contract terms are met, the price is fixed or determinable, collectability is reasonably assured and a product is shipped or risk of ownership has been transferred to and accepted by the customer. For sales contingent upon customer acceptance, revenue recognition is deferred until such obligations are fulfilled. Estimated product returns are recorded as a reduction in reported revenues at the time of sale based upon historical product return experience and gross profit margin adjusted for known trends. Provisions for customer volume rebates, discounts and allowances are also recorded as a reduction of reported revenues at the time of sale based on historical experience and known trends. Revenue related to maintenance, extended warranty and subscription agreements is recognized over the terms of the respective agreements.

Snap-on also recognizes revenue related to multiple element arrangements, including sales of hardware, software and software-related services. When a sales arrangement contains multiple elements, such as hardware and software products and/or services, Snap-on uses the relative selling price method to allocate revenues between hardware and software elements. For software elements that are not essential to the hardware s functionality and related software post-contract customer support, vendor specific objective evidence ( VSOE ) of fair value is used to further allocate revenue to each element based on its relative fair value and, when necessary, the residual method is used to assign value to the delivered elements when VSOE only exists for the undelivered elements. The amount assigned to the products or services is recognized when the product is delivered and/or when the services are performed. In instances where the product and/or services are performed over an extended period, as is the case with subscription agreements or the providing of ongoing support, revenue is generally recognized on a straight-line basis over the term of the agreement, which generally ranges from 12 to 60 months.

*Notes to Consolidated Financial Statements (continued)*

Franchise fee revenue, including nominal, non-refundable initial fees, is recognized upon the granting of a franchise, which is when the company has performed substantially all initial services required by the franchise agreement. Franchise fee revenue also includes ongoing monthly fees (primarily for sales and business training as well as marketing and product promotion programs) that are recognized as the fees are earned. Franchise fee revenue totaled $13.9 million, $12.7 million and $12.1 million in 2016, 2015 and 2014, respectively.

**Financial services revenue:** Snap-on also generates revenue from various financing programs that include: (i) installment sales and lease contracts arising from franchisees customers and certain other customers of Snap-on who require financing for the purchase or lease of tools and diagnostic and equipment products on an extended-term payment plan; and (ii) business loans and vehicle leases to franchisees. These financing programs are offered through Snap-on s wholly owned finance subsidiaries. Financial services revenue consists primarily of interest income on finance and contract receivables and is recognized over the life of the underlying contracts, with interest computed primarily on the average daily balances of the underlying contracts.

The decision to finance through Snap-on or another financing source is solely at the election of the customer. When assessing customers for potential financing, Snap-on considers various factors regarding ability to pay including the customers financial condition, debt-servicing ability, past payment experience, and credit bureau and proprietary Snap-on credit model information, as well as the value of the underlying collateral. For finance and contract receivables, Snap-on assesses these factors through the use of credit quality indicators consisting primarily of customer credit risk scores combined with internal credit risk grades, collection experience and other internal metrics.

**Financial services lease arrangements:** Snap-on accounts for its financial services leases as direct financing or sales-type leases. The company determines the gross investment in the lease as the present value of the minimum lease payments using the interest rate implicit in the lease, net of amounts, if any, included therein for executor costs to be paid by Snap-on, together with any profit thereon. The difference between the gross investment in the lease and the related undiscounted minimum lease payments for the leased property is reported as unearned finance charges. Unearned finance charges are amortized to income over the life of the contract. The default covenants included in the lease arrangements are usual and customary, consistent with industry practice, and do not impact the lease classification. Except in circumstances where the company has concluded that a lessee s financial condition has deteriorated, the other default covenants under Snap-on s lease arrangements are objectively determinable.

**Research and engineering:** Snap-on incurred research and engineering costs of $53.4 million, $49.3 million and $52.4 million in 2016, 2015 and 2014, respectively. Research and engineering costs are included in Operating expenses on the accompanying Consolidated Statements of Earnings.

**Internally developed software:** Costs incurred in the development of software that will ultimately be sold are capitalized from the time technological feasibility has been attained and capitalization ceases when the related product is ready for general release. During 2016, 2015 and 2014, Snap-on capitalized $10.8 million, $14.9 million and $19.0 million, respectively, of such costs. Amortization of capitalized software development costs, which is included in Cost of goods sold on the accompanying Consolidated Statements of Earnings, was $13.8 million in 2016, $14.0 million in 2015 and $13.6 million in 2014. Unamortized capitalized software development costs of $47.4 million as of 2016 year end and $50.4 million as of 2015 year end are included in Other intangibles net on the accompanying Consolidated Balance Sheets.

**Internal-use software:** Costs that are incurred in creating software solutions and enhancements to those solutions are capitalized only during the application development stage of the project.

**Shipping and handling:** Amounts billed to customers for shipping and handling are included as a component of sales. Costs incurred by Snap-on for shipping and handling are included as a component of cost of goods sold when the costs relate to manufacturing activities. In 2016, 2015 and 2014, Snap-on incurred shipping and handling charges of $43.1 million, $39.0 million and $40.3 million, respectively, that were recorded in Cost of goods sold on the accompanying Consolidated Statements of Earnings. Shipping and handling costs incurred in conjunction

with selling or distribution activities are included as a component of operating expenses. Shipping and handling charges were $81.2 million in 2016 and $78.5 million in both 2015 and 2014; these charges were recorded in Operating expenses on the accompanying Consolidated Statements of Earnings.

**Advertising and promotion:** Production costs of future media advertising are deferred until the advertising occurs. All other advertising and promotion costs are expensed when incurred. For 2016, 2015 and 2014, advertising and promotion expenses totaled $52.6 million, $54.9 million and $51.4 million, respectively. Advertising and promotion costs are included in Operating expenses on the accompanying Consolidated Statements of Earnings.

**Warranties:** Snap-on provides product warranties for specific product lines and accrues for estimated future warranty costs in the period in which the sale is recorded. See Note 15 for information on warranties.

**Foreign currency:** The financial statements of Snap-on s foreign subsidiaries are translated into U.S. dollars. Assets and liabilities of foreign subsidiaries are translated at current rates of exchange, and income and expense items are translated at the average exchange rates for the period. The resulting translation adjustments are recorded directly into Accumulated other comprehensive loss on the accompanying Consolidated Balance Sheets. Foreign exchange transactions, net of foreign currency hedges, resulted in pretax losses of $1.3 million, $2.7 million and $1.5 million in 2016, 2015 and 2014, respectively. Foreign exchange transaction gains and losses are reported in Other income (expense) net on the accompanying Consolidated Statements of Earnings.

**Income taxes:** Current tax assets and liabilities are based upon an estimate of taxes refundable or payable for each of the jurisdictions in which the company is subject to tax. In the ordinary course of business, there is inherent uncertainty in quantifying income tax positions. Snap-on assesses income tax positions and records tax benefits for all years subject to examination based upon management s evaluation of the facts, circumstances and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, Snap-on records the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit is recognized in the financial statements. When applicable, associated interest and penalties are recognized as a component of income tax expense. Accrued interest and penalties are included within the related tax asset or liability on the accompanying Consolidated Balance Sheets.

Deferred income taxes are provided for temporary differences arising from differences in bases of assets and liabilities for tax and financial reporting purposes. Deferred income taxes are recorded on temporary differences using enacted tax rates in effect for the year in which the temporary differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. See Note 8 for further information on income taxes.

**Per share data:** Basic earnings per share calculations were computed by dividing net earnings attributable to Snap-on Incorporated by the corresponding weighted-average number of common shares outstanding for the period. The dilutive effect of the potential exercise of outstanding options and stock-settled stock appreciation rights ( SARs ) to purchase common shares is calculated using the treasury stock method. As of both December 31, 2016, and January 2, 2016, there were 1,600 awards outstanding that were anti-dilutive; as of January 3, 2015, there were no outstanding awards that were anti-dilutive. Performance-based equity awards are included in the diluted earnings per share calculation based on the attainment of the applicable performance metrics to date. Snap-on had dilutive securities totaling 1,307,914 shares, 1,016,969 shares and 921,050 shares, as of the end of 2016, 2015 and 2014, respectively. See Note 13 for further information on equity awards.

**Stock-based compensation:** Snap-on recognizes the cost of employee services in exchange for awards of equity instruments based on the grant date fair value of those awards. That cost, based on the estimated number of awards that are expected to vest, is recognized on a straight-line basis over the period during which the employee is required to provide the service in exchange for the award. No compensation cost is recognized for awards for which employees do not render the requisite service. The grant date fair value of employee stock options and similar instruments is estimated using the Black-Scholes valuation model.

The Black-Scholes valuation model requires the input of subjective assumptions, including the expected life of the stock-based award and stock price volatility. The assumptions used are management s best estimates, but the estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the recorded stock-based compensation expense could have been materially different from that depicted in the financial statements. See Note 13 for further information on stock-based compensation.

*Notes to Consolidated Financial Statements (continued)*

**Derivatives:** Snap-on utilizes derivative financial instruments, including foreign currency forward contracts, interest rate swap agreements, treasury lock agreements and prepaid equity forward agreements to manage its exposures to foreign currency exchange rate risks, interest rate risks, and market risk associated with the stock-based portion of its deferred compensation plans. Snap-on accounts for its derivative instruments at fair value. Snap-on does not hold or issue financial instruments for speculative or trading purposes. See Note 10 for further information on derivatives.

**Cash equivalents:** Snap-on considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents as of 2016 and 2015 year ends.

**Receivables and allowances for doubtful accounts:** All trade, finance and contract receivables are reported on the Consolidated Balance Sheets at their outstanding principal balance adjusted for any charge-offs and net of allowances for doubtful accounts. Finance and contract receivables also include accrued interest and contract acquisition costs, net of contract acquisition fees.

Snap-on maintains allowances for doubtful accounts to absorb probable losses inherent in its portfolio of receivables. The allowances for doubtful accounts represent management s estimate of the losses inherent in the company s receivables portfolio based on ongoing assessments and evaluations of collectability and historical loss experience. In estimating losses inherent in each of its receivable portfolios (trade, finance and contract receivables), Snap-on uses historical loss experience rates by portfolio and applies them to a related aging analysis. Determination of the proper level of allowances by portfolio requires management to exercise significant judgment about the timing, frequency and severity of credit losses that could materially affect the provision for credit losses and, as a result, net earnings. The allowances take into consideration numerous quantitative and qualitative factors that include receivable type, historical loss experience, loss migration, delinquency trends, collection experience, current economic conditions and credit risk characteristics as follows:

Snap-on evaluates the collectability of receivables based on a combination of various financial and qualitative factors that may affect its customers ability to pay. These factors may include customers financial condition, debt-servicing ability, past payment experience, and credit bureau and proprietary Snap-on credit model information, as well as the value of the underlying collateral.

For finance and contract receivables, Snap-on assesses quantitative and qualitative factors through the use of credit quality indicators consisting primarily of collection experience and other internal metrics as follows:

Collection experience Snap-on conducts monthly reviews of credit and collection performance for each of its finance and contract receivable portfolios focusing on data such as delinquency trends, non-performing assets, and charge-off and recovery activity. These reviews allow for the formulation of collection strategies and potential collection policy modifications in response to changing risk profiles in the finance and contract receivable portfolios.

Other internal metrics Snap-on maintains a system that aggregates credit exposure by customer, risk classification and geographical area, among other factors, to further monitor changing risk profiles.

Management performs detailed reviews of its receivables on a monthly and/or quarterly basis to assess the adequacy of the allowances based on historical and current trends and other factors affecting credit losses and to determine if any impairment has occurred. A receivable is impaired when it is probable that all amounts related to the receivable will not be collected according to the contractual terms of the agreement. Additions

to the allowances for doubtful accounts are maintained through adjustments to the provision for credit losses, which are charged to current period earnings; amounts determined to be uncollectable are charged directly against the allowances, while amounts recovered on previously charged-off accounts increase the allowances. Net charge-offs include the principal amount of losses charged-off as well as charged-off interest and fees. Recovered interest and fees previously charged-off are recorded through the allowances for doubtful accounts and increase the allowances. Finance receivables are assessed for charge-off when an account becomes 120 days past due and are charged-off typically within 60 days of asset repossession. Contract receivables related to equipment leases are generally charged-off when an account becomes 150 days past due, while contract receivables related to franchise finance and van leases are generally charged-off up to 180 days past the asset return date. For finance and contract receivables, customer bankruptcies are generally charged-off upon notification that the associated debt is not being reaffirmed or, in any event, no later than 180 days past due.

Snap-on does not believe that its trade accounts, finance or contract receivables represent significant concentrations of credit risk because of the diversified portfolio of individual customers and geographical areas. See Note 3 for further information on receivables and allowances for doubtful accounts.

**Other accrued liabilities:** Supplemental balance sheet information for Other accrued liabilities as of 2016 and 2015 year end is as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Income taxes | $ 21.4 | $ 28.5 |
| Accrued restructuring | 2.8 | 4.1 |
| Accrued warranty | 16.0 | 16.4 |
| Deferred subscription revenue | 43.0 | 40.7 |
| Accrued property, payroll and other taxes | 36.1 | 39.7 |
| Accrued selling and promotion expense | 24.7 | 23.3 |
| Other | 163.9 | 143.3 |
| Total other accrued liabilities | $ 307.9 | $ 296.0 |

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

Snap-on adopted the last-in, first-out ( LIFO ) inventory valuation method in 1973 for its U.S. locations. Snap-on s U.S. inventories accounted for on a LIFO basis consist of purchased product and inventory manufactured at the company s heritage U.S. manufacturing facilities (primarily hand tools and tool storage). Since Snap-on began acquiring businesses in the 1990 s, the company has used the first-in, first-out ( FIFO ) inventory valuation methodology for acquisitions; the company does not adopt the LIFO inventory valuation methodology for new acquisitions. See Note 4 for further information on inventories.

**Property and equipment:** Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over estimated useful lives. Major repairs that extend the useful life of an asset are capitalized, while routine maintenance and repairs are expensed as incurred. Capitalized software included in property and equipment reflects costs related to internally developed or purchased software for internal use and is amortized on a straight-line basis over their estimated useful lives. Long-lived assets are evaluated for impairment when events or circumstances indicate that the carrying amount of the long-lived asset may not be recoverable. See Note 5 for further information on property and equipment.

**Goodwill and other intangible assets:** Goodwill and other indefinite-lived assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. Annual impairment tests are performed by the company in the second quarter of each year using information available as of fiscal April month end. Snap-on evaluates the existence of goodwill and indefinite-lived intangible asset impairment on the basis of whether the assets are fully recoverable from projected, discounted cash flows of the related reportable unit or asset. Intangible assets with finite lives are amortized over their estimated useful lives using straight-line and accelerated methods depending on the nature of the particular asset. See Note 6 for further information on goodwill and other intangible assets.

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*Notes to Consolidated Financial Statements (continued)*

**New accounting standards**

In March 2016, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2016-09, *Compensation Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify several aspects of the accounting for stock-based compensation transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statements of cash flows. Snap-on adopted this ASU as of January 3, 2016. Prior to adoption, excess tax benefits or expense related to stock-based compensation transactions were recognized in Additional paid-in capital on the accompanying Consolidated Balance Sheets; following adoption, all excess tax benefits or expense related to stock-based compensation transactions are recognized prospectively as income tax benefits or expense in the accompanying Consolidated Statements of Earnings. In addition, the excess tax benefits or expense from stock-based compensation transactions previously included in Financing activities on the accompanying Consolidated Statements of Cash Flows are prospectively included on that statement as a component of Net earnings. To eliminate diversity in practice, the ASU also requires that cash payments to tax authorities in connection with shares withheld to meet employees statutory tax withholding requirements are to be included retrospectively, for all periods presented, in financing activities on the statements of cash flows. The adoption of this ASU did not have a significant impact on the company s Consolidated Financial Statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes (Topic 740)*, to simplify the presentation of deferred income taxes by requiring that all deferred tax liabilities and assets be classified as long term on the balance sheet. Snap-on adopted this ASU as of April 2, 2016. Upon adoption, Snap-on retrospectively reclassified $109.9 million of current Deferred income tax assets, $45.9 million of long-term Deferred income tax assets, and $0.3 million of current deferred income tax liabilities (included in Other accrued liabilities ) to long-term Deferred income tax liabilities on the accompanying 2015 year-end Consolidated Balance Sheet. Due to the jurisdictional netting of non-current deferred tax assets and liabilities, Snap-on s overall assets and liabilities were reduced by $155.8 million on the revised 2015 year-end Consolidated Balance Sheet.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805)*, to simplify the accounting and disclosures for entities that report provisional amounts for items in a business combination for which the accounting is incomplete at the end of the reporting period in which the business combination occurred. The ASU, which was effective for Snap-on at the beginning of its 2016 fiscal year, requires that an acquirer recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined as if the accounting had been completed at the acquisition date. Entities are required to present separately on the face of the income statement or disclose in the notes to the financial statements the amounts recorded in current-period earnings (by line item) that would have been recorded in previous reporting periods if the adjustments to the provisional amounts had been recognized as of the acquisition date. The adoption of this ASU did not have a significant impact on the company s Consolidated Financial Statements.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value ( NAV ) per share practical expedient. The ASU also removed the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using the practical expedient. Entities are required to apply the provisions of this ASU retrospectively to all periods presented. Snap-on adopted ASU No. 2015-07 at the beginning of its 2016 fiscal year. In Note 11 and Note 12, certain investments within the company s pension and postretirement plan assets that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The adoption of this ASU did not have a significant impact on the company s Consolidated Financial Statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other Than Inventory*. The ASU eliminates the requirement to defer the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. Under the new guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for fiscal years beginning after December 15, 2017, including interim

periods within those fiscal years; early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance (i.e., the first interim period if an entity issues interim financial statements). The amendments in this ASU are to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings at the time of adoption. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*, which adds and/or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years; early adoption is permitted. The company is currently assessing the impact this ASU will have on its consolidated statements of cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Credit Losses (Topic 326)*, to require the measurement of expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable forecasts. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years; the ASU allows for early adoption as of the beginning of an interim or annual reporting period beginning after December 15, 2018. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Topic 606 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract.

In December 2016, the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which clarified the guidance in Topic 606 on assessing certain aspects of the new revenue standard, including loan guarantee fees, contract cost impairment testing, provisions for loan losses, disclosure of remaining and prior-period performance obligations, contract modifications, contract assets and receivables, refund liabilities, advertising costs and other items. The amendments in this ASU did not change the core principles of the guidance in Topic 606.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606) Narrow-Scope Improvements and Practical Expedients*, which clarified the guidance in Topic 606 on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The amendments in this ASU did not change the core principles of the guidance in Topic 606.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing*, which clarified the identification of performance obligations and the licensing implementation guidance in Topic 606. The amendments in this ASU did not change the core principles of the guidance in Topic 606.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606) Principal versus Agent Considerations (Reporting Revenue Gross versus Net).* ASU No. 2016-08 clarified the principal-versus-agent implementation guidance in Topic 606 that requires an entity to determine whether the nature of its promise to provide goods or services to a customer is performed in a principal or agent capacity and to recognize revenue in a gross or net manner based on its principal/agent designation. The amendments in this ASU did not change the core principles of the guidance in Topic 606.

Entities may early adopt Topic 606 only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Entities have the option of adopting this standard using either a full retrospective approach or a modified retrospective approach (i.e., through a cumulative-effect adjustment directly to retained earnings at the time of adoption).

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*Notes to Consolidated Financial Statements (continued)*

Snap-on commenced its assessment of Topic 606 during the second half of 2014 and developed a comprehensive project plan that included representatives from across the company s business segments. The project plan included analyzing the standard s impact on the company s various revenue streams, comparing its historical accounting policies and practices to the requirements of the new standard, and identifying potential differences from applying the requirements of the new standard to its contracts. In addition, the company is in the process of identifying and implementing appropriate changes to its business processes, systems and controls to support revenue recognition and disclosures under Topic 606.

As of December 31, 2016, and subject to the potential effects of any new related ASUs issued by the FASB in 2017, as well as the company s evaluation of new transactions and contracts, the company has substantially completed its evaluation of the expected impact of adopting Topic 606 and anticipates that the adoption of this standard will not have a significant impact on the company s consolidated financial statements. The company presently expects to adopt Topic 606 at the beginning of its 2018 fiscal year using the modified retrospective approach.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is intended to represent an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. This ASU, which supersedes most current lease guidance, affects any entity that enters into a lease (as that term is defined in the ASU), with some specified scope exemptions. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; the ASU allows for early adoption as of the beginning of an interim or annual reporting period. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

**Note 2: Acquisitions**

On November 16, 2016, Snap-on acquired Ryeson Corporation (d/b/a Sturtevant Richmont) for a preliminary cash purchase price of $12.9 million (or $12.5 million, net of cash acquired). The preliminary purchase price is subject to change based upon the finalization of a working capital adjustment that is expected to be completed in the first quarter of 2017. Sturtevant Richmont, based in Carol Stream, Illinois, designs, manufactures and distributes mechanical and electronic torque wrenches as well as wireless torque error proofing systems for a variety of industrial applications. For segment reporting purposes, the results of operations and assets of Sturtevant Richmont have been included in the Commercial & Industrial Group since the acquisition date.

As of December 31, 2016, and subject to the finalization of the working capital adjustment in the first quarter of 2017, the company has completed the majority of the purchase accounting valuations for the acquired net assets, including the identification of $3.7 million of non-amortized trademarks, of Sturtevant Richmont. On a preliminary basis, the $3.2 million excess of the Sturtevant Richmont purchase price over the fair value of the net assets acquired was recorded in Goodwill on the accompanying Consolidated Balance Sheets. The company does not expect any of the goodwill will be deductible for tax purposes.

On October 31, 2016, Snap-on acquired Car-O-Liner Holding AB ( Car-O-Liner ) for a preliminary cash purchase price of $151.8 million (or $147.9 million, net of cash acquired). The preliminary purchase price is subject to change based upon the finalization of a working capital adjustment that is expected to be completed in the first quarter of 2017. Car-O-Liner, headquartered in Gothenburg, Sweden, designs and manufactures collision repair equipment, and information and truck alignment systems. For segment reporting purposes, substantially all of Car-O-Liner s results of operations and assets have been included in the Repair Systems & Information Group since the acquisition date, with the remaining portions included in the Commercial & Industrial Group.

As of December 31, 2016, the purchase accounting valuations for the acquired net assets of Car-O-Liner, including intangible assets, were not complete. Given the timing and complexity of this acquisition, the presentation of Car-O-Liner in Snap-on s 2016 Consolidated Financial Statements, including the allocation of the purchase price, has been prepared on a preliminary basis and changes to the allocations will occur as

fair value estimates of the acquired net assets are determined. The company anticipates completing the purchase accounting valuations for Car-O-Liner during the first half of 2017. On a preliminary basis, the $128.1 million excess of the Car-O-Liner purchase price over the net assets acquired was recorded in Goodwill on the accompanying Consolidated Balance Sheets. The company does not expect any of the goodwill will be deductible for tax purposes.

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The following is a summary of the preliminary values of the assets acquired and liabilities assumed of Car-O-Liner as of the acquisition date:

| *(Amounts in millions)* | Amount |
|---|---|
| Assets acquired: | |
| Cash | $ 3.9 |
| Trade and other accounts receivable | 17.4 |
| Inventories | 18.0 |
| Property and equipment | 7.6 |
| Goodwill | 128.1 |
| Other assets | 2.7 |
| Total assets acquired | 177.7 |
| Liabilities assumed: | |
| Accounts payable | 9.8 |
| Accrued expenses | 9.3 |
| Pension liabilities | 4.3 |
| Other liabilities | 2.5 |
| Total liabilities assumed | 25.9 |
| Preliminary net assets acquired | $ 151.8 |

The post-acquisition revenues and earnings for the Sturtevant Richmont and Car-O-Liner acquisitions, individually and collectively, were neither significant nor material to Snap-on s 2016 results of operations.

On July 27, 2015, Snap-on acquired the assets of Ecotechnics S.p.A. ( Ecotechnics ) for a cash purchase price of $11.8 million. Ecotechnics designs and manufactures vehicle air conditioning service equipment for original equipment manufacturer ( OEM ) dealerships and the automotive aftermarket worldwide.

On May 28, 2014, Snap-on acquired substantially all of the assets of Pro-Cut International, Inc. ( Pro-Cut ) for a cash purchase price of $41.3 million. Pro-Cut designs, manufactures and distributes on-car brake lathes, related equipment and accessories used in brake servicing by automotive repair facilities.

For segment reporting purposes, the results of operations and assets of Ecotechnics and Pro-Cut have been included in the Repair Systems & Information Group since the respective acquisition dates.

Pro forma financial information has not been presented for any of these acquisitions as the net effects, individually and collectively, were neither significant nor material to Snap-on s results of operations or financial position. See Note 6 for further information on goodwill and other intangible assets.

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*Notes to Consolidated Financial Statements (continued)*

**Note 3: Receivables**

*Trade and Other Accounts Receivable*

Snap-on s trade and other accounts receivable primarily arise from the sale of tools and diagnostic and equipment products to a broad range of industrial and commercial customers and to Snap-on s independent franchise van channel on a non-extended-term basis with payment terms generally ranging from 30 to 120 days.

The components of Snap-on s trade and other accounts receivable as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Trade and other accounts receivable | $ 612.8 | $ 579.2 |
| Allowances for doubtful accounts | (14.0) | (16.7) |
| Total trade and other accounts receivable net | $ 598.8 | $ 562.5 |

*Finance and Contract Receivables*

Snap-on Credit LLC ( SOC ), the company s financial services operation in the United States, originates extended-term finance and contract receivables on sales of Snap-on s products sold through the U.S. franchisee and customer network and to certain other customers of Snap-on; Snap-on s foreign finance subsidiaries provide similar financing internationally. Interest income on finance and contract receivables is included in Financial services revenue on the accompanying Consolidated Statements of Earnings.

Snap-on s finance receivables are comprised of extended-term installment payment contracts to both technicians and independent shop owners (i.e., franchisees customers) to enable them to purchase tools and diagnostic and equipment products on an extended-term payment plan, generally with average payment terms approaching four years. Contract receivables, with payment terms of up to 10 years, are comprised of extended-term installment payment contracts to a broad base of customers worldwide, including shop owners, both independents and national chains, for their purchase of tools and diagnostic and equipment products. Contract receivables also include extended-term installment loans to franchisees to meet a number of financing needs, including working capital loans, loans to enable new franchisees to fund the purchase of the franchise and van leases. Finance and contract receivables are generally secured by the underlying tools and/or diagnostic or equipment products financed and, for installment loans to franchisees, other franchisee assets.

The components of Snap-on s current finance and contract receivables as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Finance receivables, net of unearned finance charges of $17.0 million and $16.9 million, respectively | $ 488.1 | $ 460.7 |
| Contract receivables, net of unearned finance charges of $15.6 million and $15.1 million, respectively | 89.3 | 83.5 |

| | | | | |
|---|---|---|---|---|
| Total | | 577.4 | | 544.2 |
| Allowances for doubtful accounts: | | | | |
| Finance receivables | | (15.6) | | (13.4) |
| Contract receivables | | (1.2) | | (1.4) |
| Total | | (16.8) | | (14.8) |
| Total current finance and contract receivables net | $ | 560.6 | $ | 529.4 |
| Finance receivables net | $ | 472.5 | $ | 447.3 |
| Contract receivables net | | 88.1 | | 82.1 |
| Total current finance and contract receivables net | $ | 560.6 | $ | 529.4 |

The components of Snap-on s finance and contract receivables with payment terms beyond one year as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Finance receivables, net of unearned finance charges of $13.0 million and $10.9 million, respectively | $ 967.5 | $ 797.5 |
| Contract receivables, net of unearned finance charges of $21.5 million and $21.1 million, respectively | 289.4 | 269.6 |
| Total | 1,256.9 | 1,067.1 |
| Allowances for doubtful accounts: | | |
| Finance receivables | (33.0) | (24.8) |
| Contract receivables | (2.7) | (3.0) |
| Total | (35.7) | (27.8) |
| Total long-term finance and contract receivables net | $ 1,221.2 | $ 1,039.3 |
| Finance receivables net | $ 934.5 | $ 772.7 |
| Contract receivables net | 286.7 | 266.6 |
| Total long-term finance and contract receivables net | $ 1,221.2 | $ 1,039.3 |

Long-term finance and contract receivables installments, net of unearned finance charges, as of 2016 and 2015 year end are scheduled as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| *(Amounts in millions)* | Finance Receivables | Contract Receivables | Finance Receivables | Contract Receivables |
| Due in Months: | | | | |
| 13 24 | $ 380.9 | $ 69.5 | $ 361.0 | $ 65.1 |
| 25 36 | 296.9 | 60.2 | 252.8 | 56.6 |
| 37 48 | 196.8 | 49.7 | 137.8 | 46.5 |
| 49 60 | 92.9 | 37.7 | 45.9 | 35.0 |
| Thereafter | | 72.3 | | 66.4 |
| Total | $ 967.5 | $ 289.4 | $ 797.5 | $ 269.6 |

Delinquency is the primary indicator of credit quality for finance and contract receivables. Receivable balances are considered delinquent when contractual payments become 30 days past due.

Finance receivables are generally placed on nonaccrual status (nonaccrual of interest and other fees) (i) when a customer is placed on repossession status; (ii) upon receipt of notification of bankruptcy; (iii) upon notification of the death of a customer; or (iv) in other instances in

which management concludes collectability is not reasonably assured. Finance receivables that are considered nonperforming include receivables that are on nonaccrual status and receivables that are generally more than 90 days past due.

Contract receivables are generally placed on nonaccrual status (i) when a receivable is more than 90 days past due or at the point a customer s account is placed on terminated status regardless of its delinquency status; (ii) upon notification of the death of a customer; or (iii) in other instances in which management concludes collectability is not reasonably assured. Contract receivables that are considered nonperforming include receivables that are on nonaccrual status and receivables that are generally more than 90 days past due.

The accrual of interest and other fees is resumed when the finance or contract receivable becomes contractually current and collection of all remaining contractual amounts due is reasonably assured. Finance and contract receivables are evaluated for impairment on a collective basis. A receivable is impaired when it is probable that all amounts related to the receivable will not be collected according to the contractual terms of the applicable agreement. Impaired finance and contract receivables are covered by the company s respective allowances for doubtful accounts and are charged-off against the allowances when appropriate. As of 2016 and 2015 year end, there were $24.9 million and $18.2 million, respectively, of impaired finance receivables, and there were $2.0 million and $1.7 million, respectively, of impaired contract receivables.

*Notes to Consolidated Financial Statements (continued)*

It is the general practice of Snap-on s financial services business to not engage in contract or loan modifications. In limited instances, Snap-on s financial services business may modify certain impaired receivables in troubled debt restructurings. The amount and number of restructured finance and contract receivables as of 2016 and 2015 year end were immaterial to both the financial services portfolio and the company s results of operations and financial position.

The aging of finance and contract receivables as of 2016 and 2015 year end is as follows:

| *(Amounts in millions)* | 30-59 Days Past Due | 60-90 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Total Not Past Due | Total | Greater Than 90 Days Past Due and Accruing |
|---|---|---|---|---|---|---|---|
| 2016 year end: | | | | | | | |
| Finance receivables | $ 15.1 | $ 9.8 | $ 17.0 | $ 41.9 | $ 1,413.7 | $ 1,455.6 | $ 13.2 |
| Contract receivables | 1.4 | 0.9 | 1.4 | 3.7 | 375.0 | 378.7 | 0.5 |
| 2015 year end: | | | | | | | |
| Finance receivables | $ 12.1 | $ 7.6 | $ 11.9 | $ 31.6 | $ 1,226.6 | $ 1,258.2 | $ 9.1 |
| Contract receivables | 1.3 | 0.7 | 1.3 | 3.3 | 349.8 | 353.1 | 0.3 |

The amount of performing and nonperforming finance and contract receivables based on payment activity as of 2016 and 2015 year end is as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| *(Amounts in millions)* | Finance Receivables | Contract Receivables | Finance Receivables | Contract Receivables |
| Performing | $ 1,430.7 | $ 376.7 | $ 1,240.0 | $ 351.4 |
| Nonperforming | 24.9 | 2.0 | 18.2 | 1.7 |
| Total | $ 1,455.6 | $ 378.7 | $ 1,258.2 | $ 353.1 |

The amount of finance and contract receivables on nonaccrual status as of 2016 and 2015 year end is as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Finance receivables | $ 11.7 | $ 9.3 |
| Contract receivables | 1.5 | 1.5 |

The following is a rollforward of the allowances for doubtful accounts for finance and contract receivables for 2016 and 2015:

| *(Amounts in millions)* | 2016 Finance Receivables | 2016 Contract Receivables | 2015 Finance Receivables | 2015 Contract Receivables |
|---|---|---|---|---|
| Allowances for doubtful accounts: | | | | |
| Beginning of year | $ 38.2 | $ 4.4 | $ 32.7 | $ 3.5 |
| Provision | 44.0 | 1.0 | 31.6 | 2.5 |
| Charge-offs | (39.8) | (1.8) | (31.7) | (1.9) |
| Recoveries | 6.2 | 0.4 | 5.9 | 0.4 |
| Currency translation | | (0.1) | (0.3) | (0.1) |
| End of year | $ 48.6 | $ 3.9 | $ 38.2 | $ 4.4 |

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The following is a rollforward of the combined allowances for doubtful accounts related to trade and other accounts receivable, as well as finance and contract receivables, for 2016, 2015 and 2014:

| *(Amounts in millions)* | Balance at Beginning of Year | Expenses | Deductions [1] | Balance at End of Year |
|---|---|---|---|---|
| Allowances for doubtful accounts: | | | | |
| 2016 | $ 59.3 | $ 51.5 | $ (44.3) | $ 66.5 |
| 2015 | 52.4 | 45.1 | (38.2) | 59.3 |
| 2014 | 46.0 | 41.7 | (35.3) | 52.4 |

[1] Represents write-offs of bad debts, net of recoveries, and the net impact of currency translation.

**Note 4: Inventories**

Inventories by major classification as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Finished goods | $ 467.4 | $ 437.9 |
| Work in progress | 42.7 | 42.9 |
| Raw materials | 93.6 | 90.3 |
| Total FIFO value | 603.7 | 571.1 |
| Excess of current cost over LIFO cost | (73.2) | (73.3) |
| Total inventories net | $ 530.5 | $ 497.8 |

Inventories accounted for using the FIFO method approximated 59% and 57% of total inventories as of 2016 and 2015 year end, respectively. The company accounts for its non-U.S. inventory on the FIFO method. As of 2016 year end, approximately 33% of the company s U.S. inventory was accounted for using the FIFO method and 67% was accounted for using the LIFO method. There were no LIFO inventory liquidations in 2016, 2015 or 2014.

**Note 5: Property and Equipment**

Property and equipment (which are carried at cost) as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Land | $ 19.1 | $ 19.7 |
| Buildings and improvements | 309.4 | 297.9 |
| Machinery, equipment and computer software | 809.6 | 780.3 |

| | | |
|---|---|---|
| Property and equipment gross | 1,138.1 | 1,097.9 |
| Accumulated depreciation and amortization | (712.9) | (684.4) |
| Property and equipment net | $ 425.2 | $ 413.5 |

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

| | |
|---|---|
| Buildings and improvements | 3 to 50 years |
| Machinery, equipment and computer software | 2 to 15 years |

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*Notes to Consolidated Financial Statements (continued)*

The cost and accumulated depreciation of property and equipment under capital leases as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Buildings and improvements | $ 20.5 | $ 20.1 |
| Accumulated depreciation | (12.3) | (11.0) |
| Net book value | $ 8.2 | $ 9.1 |

Depreciation expense was $61.4 million, $57.8 million and $54.8 million in 2016, 2015 and 2014, respectively.

**Note 6: Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill by segment for 2016 and 2015 are as follows:

| *(Amounts in millions)* | Commercial & Industrial Group | Snap-on Tools Group | Repair Systems & Information Group | Total |
|---|---|---|---|---|
| Balance as of 2014 year end | $ 275.9 | $ 12.5 | $ 522.3 | $ 810.7 |
| Currency translation | (22.8) | | (4.0) | (26.8) |
| Acquisition | | | 6.2 | 6.2 |
| Balance as of 2015 year end | $ 253.1 | $ 12.5 | $ 524.5 | $ 790.1 |
| Currency translation | (16.4) | | (9.5) | (25.9) |
| Acquisitions | 5.7 | | 125.6 | 131.3 |
| Balance as of 2016 year end | $ 242.4 | $ 12.5 | $ 640.6 | $ 895.5 |

Goodwill of $895.5 million as of 2016 year end includes, on a preliminary basis, $131.3 million of non-tax-deductible goodwill from the 2016 acquisitions of Car-O-Liner and Sturtevant Richmont. The preliminary goodwill from Car-O-Liner of $128.1 million as of 2016 year end is distributed as follows: $125.6 million in the Repair Systems & Information Group and $2.5 million in the Commercial & Industrial Group. The preliminary goodwill from Sturtevant Richmont of $3.2 million as of 2016 year end is included in the Commercial & Industrial Group. The preliminary purchase prices for the Car-O-Liner and Sturtevant Richmont acquisitions are subject to the finalization of working capital adjustments that are expected to be completed in the first quarter of 2017. See Note 2 for additional information on acquisitions.

As the purchase accounting valuations for the acquired net assets of Car-O-Liner were not complete as of December 31, 2016, the allocation of the purchase price, and resulting goodwill, has been prepared on a preliminary basis and changes to the allocations will occur as fair value estimates of the acquired net assets, including intangible assets, are determined.

Additional disclosures related to other intangible assets as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 Gross Carrying Value | 2016 Accumulated Amortization | 2015 Gross Carrying Value | 2015 Accumulated Amortization |
|---|---|---|---|---|
| Amortized other intangible assets: | | | | |
| Customer relationships | $ 142.6 | $ (86.0) | $ 146.2 | $ (79.7) |
| Developed technology | 17.7 | (17.7) | 18.9 | (18.9) |
| Internally developed software | 165.7 | (118.3) | 156.0 | (105.6) |
| Patents | 31.9 | (21.5) | 30.1 | (20.9) |
| Trademarks | 2.8 | (1.8) | 2.6 | (1.7) |
| Other | 7.2 | (2.2) | 7.6 | (1.9) |
| Total | 367.9 | (247.5) | 361.4 | (228.7) |
| Non-amortized trademarks | 64.2 | | 62.3 | |
| Total other intangible assets | $ 432.1 | $ (247.5) | $ 423.7 | $ (228.7) |

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The gross carrying value of non-amortized trademarks as of 2016 year end includes $3.7 million related to the Sturtevant Richmont acquisition.

Significant and unanticipated changes in circumstances, such as declines in profitability and cash flow due to significant and long-term deterioration in macroeconomic, industry and market conditions, the loss of key customers, changes in technology or markets, significant changes in key personnel or litigation, a significant and sustained decrease in share price and/or other events, including effects from the sale or disposal of a reporting unit, could require a provision for impairment of goodwill and/or other intangible assets in a future period. As of 2016 year end, the company had no accumulated impairment losses.

The weighted-average amortization periods related to other intangible assets are as follows:

| | In Years |
|---|---|
| Customer relationships | 15 |
| Internally developed software | 3 |
| Patents | 8 |
| Trademarks | 6 |
| Other | 39 |

Snap-on is amortizing its customer relationships on both an accelerated and straight-line basis over a 15 year weighted-average life; the remaining intangibles are amortized on a straight-line basis. The weighted-average amortization period for all amortizable intangibles on a combined basis is 11 years.

The company s customer relationships generally have contractual terms of three to five years and are typically renewed without significant cost to the company. The weighted-average 15 year life for customer relationships is based on the company s historical renewal experience. Intangible asset renewal costs are expensed as incurred.

The aggregate amortization expense was $24.2 million in 2016 and $24.7 million in both 2015 and 2014. Based on current levels of amortizable intangible assets and estimated weighted-average useful lives, estimated annual amortization expense is expected to be $23.2 million in 2017, $20.8 million in 2018, $17.5 million in 2019, $13.9 million in 2020, and $12.2 million in 2021.

**Note 7: Exit and Disposal Activities**

In 2016, the company s Repair Systems & Information Group recorded $0.9 million of severance costs for exit and disposal activities, all of which qualified for accrual treatment; no costs for exit and disposal activities were recorded in 2015. In 2014, Snap-on recorded $6.5 million of severance costs for exit and disposal activities, all of which qualified for accrual treatment. The exit and disposal accrual of $2.8 million as of 2016 year end is expected to be fully utilized in 2017. Snap-on anticipates funding the remaining cash requirements of its exit and disposal activities with available cash on hand, cash flows from operations and borrowings under the company s existing credit facilities. The estimated costs for the exit and disposal activities were based on management s best business judgment under prevailing circumstances.

**Note 8: Income Taxes**

The source of earnings before income taxes and equity earnings consisted of the following:

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| United States | $ 644.0 | $ 578.4 | $ 481.1 |
| Foreign | 157.4 | 132.1 | 149.8 |

| Total | $ 801.4 | $ 710.5 | $ 630.9 |
|---|---|---|---|

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*Notes to Consolidated Financial Statements (continued)*

The provision (benefit) for income taxes consisted of the following:

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 175.9 | $ 165.8 | $ 137.6 |
| Foreign | 39.9 | 40.8 | 41.2 |
| State | 27.2 | 19.7 | 17.5 |
| Total current | 243.0 | 226.3 | 196.3 |
| Deferred: | | | |
| Federal | 6.3 | (8.7) | 10.0 |
| Foreign | (6.7) | 3.9 | (8.2) |
| State | 1.7 | (0.3) | 1.4 |
| Total deferred | 1.3 | (5.1) | 3.2 |
| Total income tax provision | $ 244.3 | $ 221.2 | $ 199.5 |

The following is a reconciliation of the statutory federal income tax rate to Snap-on s effective tax rate:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% |
| Increase (decrease) in tax rate resulting from: | | | |
| State income taxes, net of federal benefit | 2.4 | 2.3 | 2.2 |
| Noncontrolling interests | (0.6) | (0.6) | (0.5) |
| Repatriation of foreign earnings | (0.1) | (3.0) | (0.4) |
| Change in valuation allowance for deferred tax assets | (1.0) | 0.1 | (0.9) |
| Adjustments to tax accruals and reserves | 0.3 | 0.8 | 0.5 |
| Foreign rate differences | (2.1) | (1.9) | (2.2) |
| Domestic production activities deduction | (1.9) | (1.9) | (2.0) |
| Excess tax benefits related to equity compensation | (1.8) | | |
| Other | 0.3 | 0.3 | (0.1) |
| Effective tax rate | 30.5% | 31.1% | 31.6% |

Snap-on s effective income tax rate on earnings attributable to Snap-on Incorporated was 31.0% in 2016, 31.7% in 2015, and 32.1% in 2014. The effective tax rate for 2016 included tax benefits from the reversal of deferred tax asset valuation allowances that are now expected to be realized in future years, as well as tax benefits associated with the January 3, 2016 adoption of ASU No. 2016-09; these tax benefits were partially offset by tax contingency reserves established for certain non-U.S. tax audits. See Note 1 for further information on the company s adoption of ASU No. 2016-09.

Temporary differences that give rise to the net deferred income tax asset (liability) as of 2016, 2015 and 2014 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Long-term deferred income tax assets (liabilities): | | | |
| Inventories | $ 33.3 | $ 29.4 | $ 29.2 |
| Accruals not currently deductible | 77.7 | 71.1 | 72.7 |
| Tax credit carryforward | 15.1 | 10.2 | |
| Employee benefits | 108.1 | 101.2 | 91.5 |
| Net operating losses | 42.8 | 44.4 | 53.5 |
| Depreciation and amortization | (209.8) | (199.3) | (191.2) |
| Valuation allowance | (21.7) | (32.0) | (34.8) |
| Equity-based compensation | 24.3 | 22.7 | 19.6 |
| Cash flow hedge | (5.5) | | |
| Other | (4.6) | (1.6) | (5.7) |
| Net deferred income tax asset | $ 59.7 | $ 46.1 | $ 34.8 |

As of 2016 year end, Snap-on had tax net operating loss carryforwards totaling $253.8 million as follows:

| *(Amounts in millions)* | State | Federal | Foreign | Total |
|---|---|---|---|---|
| Year of expiration: | | | | |
| 2017-2021 | $ | $ | $ 37.6 | $ 37.6 |
| 2022-2026 | 0.3 | | 6.5 | 6.8 |
| 2027-2031 | 122.1 | | 37.6 | 159.7 |
| 2032-2036 | | | | |
| Indefinite | | | 49.7 | 49.7 |
| Total net operating loss carryforwards | $ 122.4 | $ | $ 131.4 | $ 253.8 |

A valuation allowance totaling $21.7 million, $32.0 million and $34.8 million as of 2016, 2015 and 2014 year end, respectively, has been established for deferred income tax assets primarily related to certain subsidiary loss carryforwards that may not be realized. For the year ended December 31, 2016, the net valuation allowance decreased by $10.3 million primarily due to a non-U.S. subsidiary having, in part, attained three years of cumulative pretax income and, as a result, management concluded there is sufficient positive evidence that it is more-likely-than-not that additional deferred taxes are realizable. Realization of the net deferred income tax assets is dependent on generating sufficient taxable income prior to their expiration. Although realization is not assured, management believes it is more-likely-than-not that the net deferred income tax assets will be realized. The amount of the net deferred income tax assets considered realizable, however, could change in the near term if estimates of future taxable income during the carryforward period fluctuate.

The following is a reconciliation of the beginning and ending amounts of unrecognized tax benefits for 2016, 2015 and 2014:

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Unrecognized tax benefits at beginning of year | $ 7.2 | $ 6.4 | $ 4.6 |
| Gross increases tax positions in prior periods | 2.5 | 1.7 | 2.1 |

| | | | |
|---|---|---|---|
| Gross decreases tax positions in prior periods | (0.3) | (0.5) | |
| Gross increases tax positions in the current period | 0.5 | 0.5 | 1.8 |
| Settlements with taxing authorities | | | (1.6) |
| Lapsing of statutes of limitations | (0.5) | (0.9) | (0.5) |
| Unrecognized tax benefits at end of year | $ 9.4 | $ 7.2 | $ 6.4 |

*Notes to Consolidated Financial Statements (continued)*

The unrecognized tax benefits of $9.4 million, $7.2 million and $6.4 million as of 2016, 2015 and 2014 year end, respectively, would impact the effective income tax rate if recognized. As of December 31, 2016, unrecognized tax benefits of $3.4 million, $2.4 million and $3.6 million were included in Deferred income tax assets, Other accrued liabilities and Other long-term liabilities, respectively, on the accompanying Consolidated Balance Sheet. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. As of 2016, 2015 and 2014 year end, the company had provided for $0.9 million, $0.5 million and $0.5 million, respectively, of accrued interest and penalties related to unrecognized tax benefits. During 2016, the company increased the reserve attributable to interest and penalties associated with unrecognized tax benefits by a net $0.4 million. As of December 31, 2016, $0.4 million and $0.5 million of accrued interest and penalties were included in Other accrued liabilities and Other long-term liabilities, respectively, on the accompanying Consolidated Balance Sheet.

Snap-on and its subsidiaries file income tax returns in the United States and in various state, local and foreign jurisdictions. It is reasonably possible that certain unrecognized tax benefits may either be settled with taxing authorities or the statutes of limitations for such items may lapse within the next 12 months, causing Snap-on s gross unrecognized tax benefits to decrease by a range of zero to $4.0 million. Over the next 12 months, Snap-on anticipates taking certain tax positions on various tax returns for which the related tax benefit does not meet the recognition threshold. Accordingly, Snap-on s gross unrecognized tax benefits may increase by a range of zero to $1.2 million over the next 12 months for uncertain tax positions expected to be taken in future tax filings.

With few exceptions, Snap-on is no longer subject to U.S. federal and state/local income tax examinations by tax authorities for years prior to 2011, and Snap-on is no longer subject to non-U.S. income tax examinations by tax authorities for years prior to 2010.

The undistributed earnings of all non-U.S. subsidiaries totaled $800.6 million, $624.1 million and $619.1 million as of 2016, 2015 and 2014 year end, respectively. Snap-on has not provided any deferred taxes on these undistributed earnings as it considers the undistributed earnings to be permanently invested. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable.

**Note 9: Short-term and Long-term Debt**

Short-term and long-term debt as of 2016 and 2015 year end consisted of the following:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| 5.50% unsecured notes due 2017 | $ 150.0 | $ 150.0 |
| 4.25% unsecured notes due 2018 | 250.0 | 250.0 |
| 6.70% unsecured notes due 2019 | 200.0 | 200.0 |
| 6.125% unsecured notes due 2021 | 250.0 | 250.0 |
| Other debt* | 160.2 | 30.1 |
| | 1,010.2 | 880.1 |
| Less: notes payable and current maturities of long-term debt: | | |
| Current maturities of long-term debt | $ (150.0) | $ |
| Commercial paper borrowings | (130.0) | |
| Other notes | (21.4) | (18.4) |
| | (301.4) | (18.4) |

| | | |
|---|---|---|
| Total long-term debt | $ 708.8 | $ 861.7 |

* Includes fair value adjustments related to interest rate swaps.

The annual maturities of Snap-on s long-term debt and notes payable over the next five years are $301.4 million in 2017 (including $150 million of unsecured 5.50% notes due January 2017 (the 2017 Notes ) that were repaid upon maturity), $250 million on January 15, 2018, $200 million in 2019, no maturities in 2020, and $250 million in 2021. As of 2016 year end, the $250 million of 4.25% unsecured notes that mature on January 15, 2018, are included in Long-term debt on the accompanying Consolidated Balance Sheet as their scheduled maturity was in excess of one year of the 2016 year-end balance sheet date. See Note 20 regarding the January 2017 repayment of the 2017 Notes.

Average notes payable outstanding, including commercial paper borrowings, were $49.3 million and $78.5 million in 2016 and 2015, respectively. The weighted-average interest rate of 7.09% in 2016 increased from 4.36% last year primarily due to higher interest rates on local borrowings in emerging growth markets (where interest rates are generally higher). Average commercial paper borrowings were $26.6 million and $52.2 million in 2016 and 2015, respectively, and the weighted-average interest rate of 0.73% in 2016 increased from 0.41% last year. At 2016 year end, the weighted-average interest rate on outstanding notes payable of 2.85% compared with 15.82% at 2015 year end. The 2016 year-end rate benefited from lower interest rates on commercial paper borrowings. The 2015 year-end rate reflected higher rates on local borrowings in emerging growth markets; no commercial paper was outstanding at 2015 year end.

Snap-on has a five-year, $700 million multi-currency revolving credit facility that terminates on December 15, 2020 (the Credit Facility ); as of December 31, 2016, no amounts were outstanding under the Credit Facility. Borrowings under the Credit Facility bear interest at varying rates based on Snap-on s then-current, long-term debt ratings. The Credit Facility s financial covenant requires that Snap-on maintain, as of each fiscal quarter end, either (i) a ratio not greater than 0.60 to 1.00 of consolidated net debt (consolidated debt net of certain cash adjustments) to the sum of such consolidated net debt plus total equity and less accumulated other comprehensive income or loss (the Debt Ratio ); or (ii) a ratio not greater than 3.50 to 1.00 of such consolidated net debt to earnings before interest, taxes, depreciation, amortization and certain other adjustments for the preceding four fiscal quarters then ended (the Debt to EBITDA Ratio ). Snap-on may, up to two times during any five-year period during the term of the Credit Facility (including any extensions thereof), increase the maximum Debt Ratio to 0.65 to 1.00 and/or increase the maximum Debt to EBITDA Ratio to 3.75 to 1.00 for four consecutive fiscal quarters in connection with certain material acquisitions (as defined in the related credit agreement). As of 2016 year end, the company s actual ratios of 0.24 and 1.02, respectively, were both within the permitted ranges set forth in this financial covenant. Snap-on generally issues commercial paper to fund its financing needs on a short-term basis and uses the Credit Facility as back-up liquidity to support such commercial paper issuances.

**Note 10: Financial Instruments**

**Derivatives:** All derivative instruments are reported in the Consolidated Financial Statements at fair value. Changes in the fair value of derivatives are recorded each period in earnings or on the accompanying Consolidated Balance Sheets, depending on whether the derivative is designated and effective as part of a hedged transaction. Gains or losses on derivative instruments recorded in Accumulated other comprehensive income (loss) ( Accumulated OCI ) must be reclassified to earnings in the period in which earnings are affected by the underlying hedged item and the ineffective portion of all hedges must be recognized in earnings in the period that such portion is determined to be ineffective.

The criteria used to determine if hedge accounting treatment is appropriate are (i) the designation of the hedge to an underlying exposure; (ii) whether or not overall risk is being reduced; and (iii) if there is a correlation between the value of the derivative instrument and the underlying hedged item. On the date a derivative contract is entered into, Snap-on designates the derivative as a fair value hedge, a cash flow hedge, a hedge of a net investment in a foreign operation, or a natural hedging instrument whose change in fair value is recognized as an economic hedge against changes in the value of the hedged item. Snap-on does not use derivative instruments for speculative or trading purposes.

The company is exposed to global market risks, including the effects of changes in foreign currency exchange rates, interest rates, and the company s stock price, and therefore uses derivatives to manage financial exposures that occur in the normal course of business. The primary risks managed by using derivative instruments are foreign currency risk, interest rate risk and stock-based deferred compensation risk.

*Notes to Consolidated Financial Statements (continued)*

**Foreign currency risk management:** Snap-on has significant international operations and is subject to certain risks inherent with foreign operations that include currency fluctuations. Foreign currency exchange risk exists to the extent that Snap-on has payment obligations or receipts denominated in currencies other than the functional currency, including intercompany loans denominated in foreign currencies. To manage these exposures, Snap-on identifies naturally offsetting positions and then purchases hedging instruments to protect the residual net exposures. Snap-on manages most of these exposures on a consolidated basis, which allows for netting of certain exposures to take advantage of natural offsets. Foreign currency forward contracts ( foreign currency forwards ) are used to hedge the net exposures. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. Snap-on s foreign currency forwards are typically not designated as hedges. The fair value changes of these contracts are reported in earnings as foreign exchange gain or loss, which is included in Other income (expense) net on the accompanying Consolidated Statements of Earnings.

As of 2016 year end, Snap-on had $144.4 million of net foreign currency forward buy contracts outstanding comprised of buy contracts including $55.0 million in euros, $53.6 million in British pounds, $47.0 million in Swedish kronor, $9.0 million in Hong Kong dollars, $7.0 million in South Korean won, $5.5 million in Singapore dollars, $4.9 million in Mexican pesos, $4.6 million in Norwegian kroner, and $6.4 million in other currencies, and sell contracts comprised of $16.6 million in Japanese yen, $11.8 million in Canadian dollars, $4.4 million in Australian dollars, $4.0 million in Brazilian real, and $11.8 million in other currencies. As of 2015 year end, Snap-on had $98.3 million of net foreign currency forward buy contracts outstanding comprised of buy contracts including $52.0 million in euros, $31.4 million in British pounds, $23.4 million in Swedish kronor, $12.9 million in Singapore dollars, $6.2 million in South Korean won, $5.5 million in Mexican pesos and $8.7 million in other currencies, and sell contracts comprised of $18.4 million in Canadian dollars, $9.7 million in Japanese yen, $4.2 million in Australian dollars and $9.5 million in other currencies.

**Interest rate risk management:** Snap-on aims to control funding costs by managing the exposure created by the differing maturities and interest rate structures of Snap-on s borrowings through the use of interest rate swap agreements ( interest rate swaps ) and treasury lock agreements ( treasury locks ).

*Interest rate swaps:* Snap-on enters into interest rate swaps to manage risks associated with changing interest rates related to the company s fixed rate borrowings. Interest rate swaps are accounted for as fair value hedges. The differentials paid or received on interest rate swaps are recognized as adjustments to Interest expense on the accompanying Consolidated Statements of Earnings. The effective portion of the change in fair value of the derivative is recorded in Long-term debt on the accompanying Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to Interest expense on the accompanying Consolidated Statements of Earnings. The notional amount of interest rate swaps outstanding and designated as fair value hedges was $100 million as of both 2016 and 2015 year end.

*Treasury locks:* Snap-on entered into a treasury lock in November 2016 to manage the potential change in interest rates in anticipation of the possible issuance of fixed rate debt; the treasury lock expires on February 28, 2017. Treasury locks are accounted for as cash flow hedges. The effective differentials to be paid or received on treasury locks related to the anticipated issuance of fixed rate debt are initially recorded in Accumulated OCI. As of 2016 year end, an unrecognized gain of $8.8 million has been recorded in Accumulated OCI on the accompanying Consolidated Balance Sheet. Upon the issuance of debt, the related amount in Accumulated OCI will be released over the term of the debt and recognized as an adjustment to interest expense on the consolidated statements of earnings. The notional amount of treasury locks outstanding and designated as cash flow hedges as of December 31, 2016, was $250 million; there were no treasury locks outstanding as of January 2, 2016, and no treasury locks were settled in 2016 or 2015.

**Stock-based deferred compensation risk management:** Snap-on aims to manage market risk associated with the stock-based portion of its deferred compensation plans through the use of prepaid equity forward agreements ( equity forwards ). Equity forwards are used to aid in offsetting the potential mark-to-market effect on stock-based deferred compensation from changes in Snap-on s stock price. Since stock-based deferred compensation liabilities increase as the company s stock price rises and decrease as the company s stock price declines, the equity forwards are intended to mitigate the potential impact on deferred compensation expense that may result from such mark-to-market changes. As

of 2016 and 2015 year end, Snap-on had equity forwards in place intended to manage market risk with respect to 104,400 shares and 107,900 shares, respectively, of Snap-on common stock associated with its deferred compensation plans.

**Fair value measurements:** Snap-on has derivative assets and liabilities related to interest rate swaps, treasury locks, foreign currency forwards and equity forwards that are measured at Level 2 fair value on a recurring basis. The fair values of derivative instruments included within the accompanying Consolidated Balance Sheets as of 2016 and 2015 year end are as follows:

| | | 2016 | | 2015 | |
|---|---|---|---|---|---|
| *(Amounts in millions)* | Balance Sheet Presentation | Asset Derivatives Fair Value | Liability Derivatives Fair Value | Asset Derivatives Fair Value | Liability Derivatives Fair Value |
| **Derivatives designated as hedging instruments:** | | | | | |
| Interest rate swaps | Other assets | $ 9.8 | $ | $ 12.9 | $ |
| Treasury locks | Other assets | 14.3 | | | |
| | | 24.1 | | 12.9 | |
| **Derivatives not designated as hedging instruments:** | | | | | |
| Foreign currency forwards | Prepaid expenses and other assets | $ 4.4 | $ | $ 2.8 | $ |
| Foreign currency forwards | Other accrued liabilities | | 13.5 | | 5.9 |
| Equity forwards | Prepaid expenses and other assets | 17.9 | | 18.5 | |
| | | 22.3 | 13.5 | 21.3 | 5.9 |
| Total derivative instruments | | $ 46.4 | $ 13.5 | $ 34.2 | $ 5.9 |

As of 2016 and 2015 year end, the fair value adjustment to long-term debt related to the interest rate swaps was $9.8 million and $12.9 million, respectively.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. Level 2 fair value measurements for derivative assets and liabilities are measured using quoted prices in active markets for similar assets and liabilities. Interest rate swaps are valued based on the six-month LIBOR swap rate for similar instruments. Treasury locks are valued based on the 10-year U.S. treasury interest rate. Foreign currency forwards are valued based on exchange rates quoted by domestic and foreign banks for similar instruments. Equity forwards are valued using a market approach based primarily on the company s stock price at the reporting date. The company did not have any derivative assets or liabilities measured at Level 1 or Level 3, nor did it implement any changes in its valuation techniques as of and for its 2016 and 2015 years ended.

The effect of derivative instruments designated as fair value hedges as included in the Consolidated Statements of Earnings is as follows:

| *(Amounts in millions)* | Statement of Earnings Presentation | Effective Portion of Gain Recognized in Income | | |
|---|---|---|---|---|
| | | 2016 | 2015 | 2014 |
| **Derivatives designated as fair value hedges:** | | | | |
| Interest rate swaps | Interest expense | $ 2.9 | $ 3.7 | $ 4.0 |

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*Notes to Consolidated Financial Statements (continued)*

The effect of derivative instruments designated as cash flow hedges as included in Accumulated OCI on the Consolidated Balance Sheets and the Consolidated Statements of Earnings is as follows:

| | Effective Portion of Gain Recognized in Accumulated OCI | | | | Effective Portion of Gain Reclassified from Accumulated OCI into Income | | |
|---|---|---|---|---|---|---|---|
| *(Amounts in millions)* | 2016 | 2015 | 2014 | Statement of Earnings Presentation | 2016 | 2015 | 2014 |
| **Derivatives designated as cash flow hedges:** | | | | | | | |
| Treasury locks | $ 8.8 | $ | $ | Interest expense | $ 0.3 | $ 0.3 | $ 0.3 |

The effects of derivative instruments not designated as hedging instruments as included in the Consolidated Statements of Earnings are as follows:

| | | Gain (Loss) Recognized in Income | | |
|---|---|---|---|---|
| *(Amounts in millions)* | Statement of Earnings Presentation | 2016 | 2015 | 2014 |
| **Derivatives not designated as hedging instruments:** | | | | |
| Foreign currency forwards | Other income (expense) net | $ (7.4) | $ (15.5) | $ (19.3) |
| Equity forwards | Operating expenses | 0.8 | 4.7 | 3.6 |

Snap-on s foreign currency forwards are typically not designated as hedges for financial reporting purposes. The fair value changes of foreign currency forwards not designated as hedging instruments are reported in earnings as foreign exchange gain or loss in Other income (expense) net on the accompanying Consolidated Statements of Earnings. In 2016, the $7.4 million derivative loss was partially offset by transaction gains on net exposures of $6.1 million, resulting in a net foreign exchange loss of $1.3 million. In 2015, the $15.5 million derivative loss was partially offset by transaction gains on net exposures of $12.8 million, resulting in a net foreign exchange loss of $2.7 million. In 2014, the $19.3 million derivative loss was partially offset by transaction gains on net exposures of $17.8 million, resulting in a net foreign exchange loss of $1.5 million. The resulting net foreign exchange losses are included in Other income (expense) net on the accompanying Consolidated Statements of Earnings. See Note 16 for additional information on Other income (expense) net.

Snap-on s equity forwards are not designated as hedges for financial reporting purposes. Fair value changes of both the equity forwards and related stock-based (mark-to-market) deferred compensation liabilities are reported in Operating expenses on the accompanying Consolidated Statements of Earnings. The $0.8 million derivative gain recognized in 2016 was partially offset by $0.3 million of mark-to-market deferred compensation expense. The $4.7 million derivative gain recognized in 2015 was largely offset by $4.6 million of mark-to-market deferred compensation expense. The $3.6 million derivative gain recognized in 2014 was offset by $3.6 million of mark-to-market deferred compensation expense.

As of 2016 year end, the maximum maturity date of any fair value hedge was five years. During the next 12 months, Snap-on expects to reclassify into earnings net gains from Accumulated OCI of approximately $0.2 million after tax at the time the underlying hedge transactions are realized.

**Counterparty risk:** Snap-on is exposed to credit losses in the event of non-performance by the counterparties to its various financial agreements, including its foreign currency forward contracts, interest rate swap agreements, treasury lock agreements and prepaid equity forward agreements. Snap-on does not obtain collateral or other security to support financial instruments subject to credit risk, but monitors the credit standing of the counterparties and generally enters into agreements with financial institution counterparties with a credit rating of A- or better. Snap-on does not anticipate non-performance by its counterparties, but cannot provide assurances.

**Fair value of financial instruments:** The fair values of financial instruments that do not approximate the carrying values in the financial statements as of 2016 and 2015 year end are as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| *(Amounts in millions)* | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Finance receivables net | $ 1,407.0 | $ 1,631.2 | $ 1,220.0 | $ 1,381.9 |
| Contract receivables net | 374.8 | 409.7 | 348.7 | 380.2 |
| Long-term debt, notes payable and current maturities of long-term debt | 1,010.2 | 1,076.7 | 880.1 | 961.1 |

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The following methods and assumptions were used in estimating the fair value of financial instruments:

Finance and contract receivables include both short-term and long-term receivables. The fair value estimates of finance and contract receivables are derived utilizing discounted cash flow analyses performed on groupings of receivables that are similar in terms of loan type and characteristics. The cash flow analyses consider recent pre-payment trends where applicable. The cash flows are discounted over the average life of the receivables using a current market discount rate of a similar term adjusted for credit quality. Significant inputs to the fair value measurements of the receivables are unobservable and, as such, are classified as Level 3.

Fair value of long-term debt and current maturities of long-term debt was estimated, using Level 2 fair value measurements, based on quoted market values of Snap-on s publicly traded senior debt. The carrying value of long-term debt includes adjustments related to fair value hedges. The fair value of notes payable approximates such instruments carrying value due to their short-term nature.

The fair value of all other financial instruments, including trade and other accounts receivable, accounts payable and other financial instruments, approximates such instruments carrying value due to their short-term nature.

**Note 11: Pension Plans**

Snap-on has several non-contributory defined benefit pension plans covering most U.S. employees and certain employees in foreign countries. Snap-on also has foreign contributory defined benefit pension plans covering certain foreign employees. Retirement benefits are generally provided based on employees years of service and average earnings or stated amounts for years of service. Normal retirement age is 65, with provisions for earlier retirement.

The status of Snap-on s pension plans as of 2016 and 2015 year end is as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Change in projected benefit obligation: | | |
| Benefit obligation at beginning of year | $ 1,279.4 | $ 1,325.9 |
| Service cost | 19.3 | 20.0 |
| Interest cost | 56.5 | 53.2 |
| Plan participant contributions | 1.0 | 1.1 |
| Benefits paid | (63.2) | (62.4) |
| Actuarial loss (gain) | 94.7 | (40.8) |
| Foreign currency impact | (26.3) | (17.6) |
| Benefit obligation at end of year | $ 1,361.4 | $ 1,279.4 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | $ 1,049.2 | $ 1,103.4 |
| Actual return (loss) on plan assets | 73.5 | (17.8) |
| Plan participant contributions | 1.0 | 1.1 |
| Employer contributions | 68.7 | 39.2 |
| Benefits paid | (63.2) | (62.4) |
| Foreign currency impact | (18.4) | (14.3) |

| | | | | |
|---|---|---|---|---|
| Fair value of plan assets at end of year | $ | 1,110.8 | $ | 1,049.2 |
| Unfunded status at end of year | $ | (250.6) | $ | (230.2) |

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*Notes to Consolidated Financial Statements (continued)*

Amounts recognized in the Consolidated Balance Sheets as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Other assets | $ 0.6 | $ 2.1 |
| Accrued benefits | (4.7) | (4.5) |
| Pension liabilities | (246.5) | (227.8) |
| Net liability | $ (250.6) | $ (230.2) |

Amounts included in Accumulated OCI on the accompanying Consolidated Balance Sheets as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Net loss, net of tax of $160.6 million and $141.4 million, respectively | $ (297.0) | $ (253.7) |
| Prior service credit, net of tax of $1.3 million and$1.7 million, respectively | 2.2 | 2.8 |
| | $ (294.8) | $ (250.9) |

The accumulated benefit obligation for Snap-on s pension plans as of 2016 and 2015 year end was $1,283.1 million and $1,231.2 million, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for Snap-on s pension plans in which the accumulated benefit obligation exceeds the fair value of plan assets as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Projected benefit obligation | $ 1,312.1 | $ 1,128.4 |
| Accumulated benefit obligation | 1,238.7 | 1,097.6 |
| Fair value of plan assets | 1,061.0 | 906.5 |

The components of net periodic benefit cost and changes recognized in Other comprehensive income (loss) ( OCI ) are as follows:

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net periodic benefit cost: | | | |
| Service cost | $ 19.3 | $ 20.0 | $ 18.0 |
| Interest cost | 56.5 | 53.2 | 57.3 |
| Expected return on plan assets | (81.0) | (79.0) | (73.3) |
| Amortization of unrecognized loss | 31.3 | 38.6 | 22.8 |

| | | | |
|---|---|---|---|
| Amortization of prior service credit | (1.1) | (0.9) | (0.8) |
| Net periodic benefit cost | $ 25.0 | $ 31.9 | $ 24.0 |
| Changes in benefit obligations recognized in OCI, net of tax: | | | |
| Net loss | $ 43.3 | $ 6.3 | $ 72.0 |
| Prior service cost | 0.6 | 0.7 | 0.5 |
| Total recognized in OCI | $ 43.9 | $ 7.0 | $ 72.5 |

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Amounts in Accumulated OCI that are expected to be amortized as net expense into net periodic benefit cost during 2017 are as follows:

| *(Amounts in millions)* | Amount |
|---|---|
| Amortization of unrecognized loss | $ 27.6 |
| Amortization of prior service credit | (1.1) |
| Total to be recognized in net periodic benefit cost | $ 26.5 |

The worldwide weighted-average assumptions used to determine Snap-on s full-year pension costs are as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Discount rate | 4.5% | 4.1% | 5.1% |
| Expected return on plan assets | 7.4% | 7.4% | 7.4% |
| Rate of compensation increase | 3.6% | 3.6% | 3.6% |

The worldwide weighted-average assumptions used to determine Snap-on s projected benefit obligation as of 2016 and 2015 year end are as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 4.2% | 4.5% |
| Rate of compensation increase | 3.4% | 3.6% |

The objective of Snap-on s discount rate assumption is to reflect the rate at which the pension benefits could be effectively settled. In making this determination, the company takes into account the timing and amount of benefits that would be available under the plans. The domestic discount rate as of 2016 and 2015 year end was selected based on a cash flow matching methodology developed by the company s outside actuaries and which incorporates a review of current economic conditions. This methodology matches the plans yearly projected cash flows for benefits and service costs to those of hypothetical bond portfolios using high-quality, AA rated or better, corporate bonds from either Moody s Investors Service or Standard & Poor s credit rating agencies available at the measurement date. This technique calculates bond portfolios that produce adequate cash flows to pay the plans projected yearly benefits and then selects the portfolio with the highest yield and uses that yield as the recommended discount rate.

The weighted-average discount rate for Snap-on s domestic pension plans of 4.5% represents the single rate that produces the same present value of cash flows as the estimated benefit plan payments. Lowering Snap-on s domestic discount rate assumption by 50 basis points (100 basis points ( bps ) equals 1.0 percent) would have increased Snap-on s 2016 domestic pension expense and projected benefit obligation by approximately $6.7 million and $65.3 million, respectively. As of 2016 year end, Snap-on s domestic projected benefit obligation comprised approximately 83% of Snap-on s worldwide projected benefit obligation. The weighted-average discount rate for Snap-on s foreign pension plans of 2.9% represents the single rate that produces the same present value of cash flows as the estimated benefit plan payments. Lowering Snap-on s foreign discount rate assumption by 50 bps would have increased Snap-on s 2016 foreign pension expense and projected benefit obligation by approximately $1.7 million and $23.4 million, respectively.

Actuarial gains and losses in excess of 10 percent of the greater of the projected benefit obligation or market-related value of assets are amortized on a straight-line basis over the average remaining service period of active participants or over the average remaining life expectancy for plans with primarily inactive participants. Prior service costs and credits resulting from plan amendments are amortized in equal annual amounts over the average remaining service period of active participants or over the average remaining life expectancy for plans with primarily inactive participants.

As a practical expedient, Snap-on uses the calendar year end as the measurement date for its plans. Snap-on funds its pension plans as required by governmental regulation and may consider discretionary contributions as conditions warrant. Snap-on intends to make contributions of $7.1 million to its foreign pension plans and $2.3 million to its domestic pension plans in 2017, as required by law. Depending on market and other conditions, Snap-on may make discretionary cash contributions to its pension plans in 2017.

*Notes to Consolidated Financial Statements (continued)*

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

| *(Amounts in millions)* | Amount |
|---|---|
| Year: | |
| 2017 | $ 68.8 |
| 2018 | 70.6 |
| 2019 | 73.2 |
| 2020 | 76.0 |
| 2021 | 78.8 |
| 2022-2026 | 438.2 |

Snap-on s domestic pension plans have a long-term investment horizon and a total return strategy that emphasizes a capital growth objective. The long-term investment performance objective for Snap-on s domestic plans assets is to achieve net of expense returns that meet or exceed the 7.5% domestic long-term return on plan assets assumption used for reporting purposes. Snap-on uses a three-year, market-related value asset method of amortizing the difference between actual and expected returns on its domestic plans assets. As of 2016 year end, Snap-on s domestic pension plans assets comprised approximately 86% of the company s worldwide pension plan assets.

The basis for determining the overall expected long-term return on plan assets assumption is a nominal returns forecasting method. For each asset class, future returns are estimated by identifying the premium of riskier asset classes over lower risk alternatives. The methodology constructs expected returns using a building block approach to the individual components of total return. These forecasts are stated in both nominal and real (after inflation) terms. This process first considers the long-term historical return premium based on the longest set of data available for each asset class. These premiums, which are calculated using the geometric mean, are then adjusted based on current relative valuation levels, macro-economic conditions, and the expected alpha related to active investment management. The asset return assumption is also adjusted by an implicit expense load for estimated administrative and investment-related expenses.

For risk and correlation assumptions, the actual experience for each asset class is reviewed for the longest time period available. Expected relationships for a 10 to 20 year time horizon are determined based upon historical results, with adjustments made for material changes.

Investments are diversified to attempt to minimize the risk of large losses. Since asset allocation is a key determinant of expected investment returns, assets are periodically rebalanced to the targeted allocation to correct significant deviations from the asset allocation policy that are caused by market fluctuations and cash flow. Asset/liability studies are conducted periodically to determine if any revisions to the strategic asset allocation policy are necessary.

Snap-on s domestic pension plans target allocation and actual weighted-average asset allocation by asset category and fair value of plan assets as of 2016 and 2015 year end are as follows:

| | Target | 2016 | 2015 |
|---|---|---|---|
| Asset category: | | | |
| Equity securities | 50% | 51% | 49% |
| Debt securities and cash and cash equivalents | 35% | 39% | 39% |
| Real estate and other real assets | 5% | 1% | 2% |

| | | | |
|---|---|---|---|
| Hedge funds | 10% | 9% | 10% |
| Total | 100% | 100% | 100% |
| Fair value of plan assets *(Amounts in millions)* | | $ 957.1 | $ 892.3 |

The fair value measurement hierarchy prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority ( Level 1 ) to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority ( Level 3 ) to unobservable inputs. Fair value measurements primarily based on observable market information are given a Level 2 priority.

Certain equity and debt securities are valued at quoted per share or unit market prices for which an official close or last trade pricing on an active exchange is available and are categorized as Level 1 in the fair value hierarchy. If quoted market prices are not readily available for specific securities, values are estimated using quoted prices of securities with similar characteristics and are categorized as Level 2 in the fair value hierarchy. Insurance contracts are valued at the present value of the estimated future cash flows promised under the terms of the insurance contracts and are categorized as Level 2 in the fair value hierarchy.

Commingled equity securities and commingled multi-strategy funds are valued at the NAV per share or unit multiplied by the number of shares or units held as of the measurement date, as reported by the fund managers. The share or unit price is quoted on a private market and is based on the value of the underlying investments, which are primarily based on observable inputs; such investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

Private equity partnership funds, hedge funds, and real estate and other real assets are valued at the NAV as reported by the fund managers. Private equity partnership funds, certain hedge funds, and certain real estate and other real assets are valued based on the proportionate interest or share of net assets held by the pension plan, which is based on the estimated fair market value of the underlying investments. Certain other hedge funds and real estate and other real assets are valued at the NAV per share or unit multiplied by the number of shares or units held as of the measurement date, based on the estimated value of the underlying investments as reported by the fund managers. These investments are measured at fair value using the NAV per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy.

The company regularly reviews fund performance directly with its investment advisor and the fund managers, and performs qualitative analysis to corroborate the reasonableness of the reported NAVs. For funds for which the company did not receive a year-end NAV, the company recorded an estimate of the change in fair value for the latest period based on return estimates and other fund activity obtained from the fund managers.

The columns labeled Investments Measured at NAV in the following tables reflect certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient and have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit a reconciliation of the fair value hierarchy to the pension plan assets.

The following is a summary, by asset category, of the fair value and the level within the fair value hierarchy of Snap-on s domestic pension plans assets as of 2016 year end:

| *(Amounts in millions)* | Quoted Prices for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Investments Measured at NAV | Total |
|---|---|---|---|---|
| Asset category: | | | | |
| Cash and cash equivalents | $ 20.4 | $ | $ | $ 20.4 |
| Equity securities: | | | | |
| Domestic | 66.0 | | | 66.0 |
| Foreign | 74.7 | | | 74.7 |
| Commingled funds domestic | | | 191.3 | 191.3 |
| Commingled funds foreign | | | 117.7 | 117.7 |
| Private equity partnerships | | | 34.2 | 34.2 |
| Debt securities: | | | | |
| Government | 139.2 | 0.9 | | 140.1 |
| Corporate bonds | | 214.6 | | 214.6 |
| Real estate and other real assets | | | 10.4 | 10.4 |

| | | | | |
|---|---|---|---|---|
| Hedge funds | | | 87.7 | 87.7 |
| Total | $ 300.3 | $ 215.5 | $ 441.3 | $ 957.1 |

*Notes to Consolidated Financial Statements (continued)*

The following is a summary, by asset category, of the fair value and the level within the fair value hierarchy of Snap-on s domestic pension plans assets as of 2015 year end:

| *(Amounts in millions)* | Quoted Prices for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Investments Measured at NAV | Total |
|---|---|---|---|---|
| Asset category: | | | | |
| Cash and cash equivalents | $ 21.3 | $ | $ | $ 21.3 |
| Equity securities: | | | | |
| Domestic | 53.9 | | | 53.9 |
| Foreign | 61.7 | | | 61.7 |
| Commingled funds domestic | | | 169.3 | 169.3 |
| Commingled funds foreign | | | 110.0 | 110.0 |
| Private equity partnerships | | | 43.7 | 43.7 |
| Debt securities: | | | | |
| Government | 133.0 | | | 133.0 |
| Corporate bonds | | 195.8 | | 195.8 |
| Real estate and other real assets | | | 17.4 | 17.4 |
| Hedge funds | | | 86.2 | 86.2 |
| Total | $ 269.9 | $ 195.8 | $ 426.6 | $ 892.3 |

Snap-on s primary investment objective for its foreign pension plans assets is to meet the projected obligations to the beneficiaries over a long period of time, and to do so in a manner that is consistent with the company s risk tolerance. The foreign asset allocation policies consider the company s financial strength and long-term asset class risk/return expectations, since the obligations are long term in nature. The company believes the foreign pension plans assets, which are managed locally by professional investment firms, are well diversified.

The expected long-term rates of return on foreign plans assets, which ranged from 1.8% to 6.3% as of 2016 year end, reflect management s expectations of long-term average rates of return on funds invested to provide benefits included in the plans projected benefit obligation. The expected returns are based on outlooks for inflation, fixed income returns and equity returns, asset allocations and investment strategies. Differences between actual and expected returns on foreign pension plans assets are recorded as an actuarial gain or loss and amortized accordingly.

Snap-on s foreign pension plans target allocation and actual weighted-average asset allocation by asset category and fair value of plan assets as of 2016 and 2015 year end are as follows:

| | Target | 2016 | 2015 |
|---|---|---|---|
| Asset category: | | | |

| | | | |
|---|---|---|---|
| Equity securities* | 39% | 41% | 40% |
| Debt securities* and cash and cash equivalents | 36% | 36% | 36% |
| Insurance contracts and hedge funds | 25% | 23% | 24% |
| Total | 100% | 100% | 100% |
| Fair value of plan assets *(Amounts in millions)* | | $ 153.7 | $ 156.9 |

* Includes commingled funds multi-strategy

The following is a summary, by asset category, of the fair value and the level within the fair value hierarchy of Snap-on s foreign pension plans assets as of 2016 year end:

| *(Amounts in millions)* | Quoted Prices for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Investments Measured at NAV | Total |
|---|---|---|---|---|
| Asset category: | | | | |
| Cash and cash equivalents | $ 0.7 | $ | $ | $ 0.7 |
| Commingled funds multi-strategy | | | 117.4 | 117.4 |
| Insurance contracts | | 21.3 | | 21.3 |
| Hedge fund | | | 14.3 | 14.3 |
| Total | $ 0.7 | $ 21.3 | $ 131.7 | $ 153.7 |

The following is a summary, by asset category, of the fair value and the level within the fair value hierarchy of Snap-on s foreign pension plans assets as of 2015 year end:

| *(Amounts in millions)* | Quoted Prices for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Investments Measured at NAV | Total |
|---|---|---|---|---|
| Asset category: | | | | |
| Cash and cash equivalents | $ 0.2 | $ | $ | $ 0.2 |
| Commingled funds multi-strategy | | | 119.0 | 119.0 |
| Insurance contracts | | 19.8 | | 19.8 |
| Hedge fund | | | 17.9 | 17.9 |
| Total | $ 0.2 | $ 19.8 | $ 136.9 | $ 156.9 |

Snap-on has several 401(k) plans covering certain U.S. employees. Snap-on s employer match to the 401(k) plans is made with cash contributions. For 2016, 2015 and 2014, Snap-on recognized $8.2 million, $7.0 million and $6.5 million, respectively, of expense related to its 401(k) plans.

**Note 12: Postretirement Plans**

Snap-on provides health care benefits for certain retired U.S. employees. Employees retiring prior to 1989 were eligible for retiree medical coverage upon reaching early retirement age, with no retiree contributions required. Benefits are paid based on deductibles and percentages of covered expenses and take into consideration payments made by Medicare and other insurance coverage.

Since 1989, U.S. retirees have been eligible for comprehensive major medical plans. Benefits are paid based on deductibles and percentages of covered expenses, and plan provisions allow for benefit and coverage changes. Most retirees are required to pay the entire cost of the coverage, but Snap-on may elect to subsidize the cost of coverage under certain circumstances.

Snap-on has a Voluntary Employees Beneficiary Association ( VEBA ) trust for the funding of existing postretirement health care benefits for certain non-salaried retirees in the United States; all other retiree health care plans are unfunded.

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*Notes to Consolidated Financial Statements (continued)*

The status of Snap-on s U.S. postretirement health care plans as of 2016 and 2015 year end is as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Change in accumulated postretirement benefit obligation: | | |
| Benefit obligation at beginning of year | $ 55.6 | $ 62.0 |
| Service cost | 0.1 | 0.1 |
| Interest cost | 2.2 | 2.2 |
| Plan participant contributions | 0.5 | 0.9 |
| Benefits paid | (4.4) | (5.4) |
| Actuarial gain | (0.8) | (4.2) |
| Benefit obligation at end of year | $ 53.2 | $ 55.6 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | $ 13.7 | $ 14.7 |
| Actual return on plan assets | 0.5 | |
| Plan participant contributions | 0.5 | 0.9 |
| Employer contributions | 2.9 | 3.5 |
| Benefits paid | (4.4) | (5.4) |
| Fair value of plan assets at end of year | $ 13.2 | $ 13.7 |
| Unfunded status at end of year | $ (40.0) | $ (41.9) |

Amounts recognized in the Consolidated Balance Sheets as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Accrued benefits | $ (3.3) | $ (4.0) |
| Retiree health care benefits | (36.7) | (37.9) |
| Net liability | $ (40.0) | $ (41.9) |

Amounts included in Accumulated OCI on the accompanying Consolidated Balance Sheets as of 2016 and 2015 year end are as follows:

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Net gain, net of tax of $2.9 million in both years | $ 4.8 | $ 4.5 |

The components of net periodic benefit cost and changes recognized in OCI are as follows:

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net periodic benefit cost: | | | |
| Service cost | $ 0.1 | $ 0.1 | $ 0.1 |
| Interest cost | 2.2 | 2.2 | 2.5 |
| Expected return on plan assets | (0.9) | (1.0) | (1.1) |
| Amortization of unrecognized (gain) loss | (0.1) | 0.3 | |
| Net periodic benefit cost | $ 1.3 | $ 1.6 | $ 1.5 |
| Changes in benefit obligations recognized in OCI, net of tax: | | | |
| Net (gain) loss | $ (0.3) | $ (2.1) | $ 1.8 |

Snap-on expects to recognize $0.4 million of prior unrecognized gains, included in Accumulated OCI on the accompanying 2016 Consolidated Balance Sheet, in net periodic benefit cost during 2017.

The weighted-average discount rate used to determine Snap-on s postretirement health care expense is as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Discount rate | 4.1% | 3.6% | 4.2% |

The weighted-average discount rate used to determine Snap-on s accumulated benefit obligation is as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 4.1% | 4.1% |

The methodology for selecting the year-end 2016 and 2015 weighted-average discount rate for the company s domestic postretirement plans was to match the plans yearly projected cash flows for benefits and service costs to those of hypothetical bond portfolios using high-quality, AA rated or better, corporate bonds from either Moody s Investors Service or Standard & Poor s credit rating agencies available at the measurement date. As a practical expedient, Snap-on uses the calendar year end as the measurement date for its plans.

For 2017, the actuarial calculations assume a pre-65 health care cost trend rate of 5.9% and a post-65 health care cost trend rate of 6.6%, both decreasing gradually to 4.5% in 2038 and thereafter. As of 2016 year end, a one-percentage-point increase in the health care cost trend rate for future years would increase the accumulated postretirement benefit obligation by approximately $0.6 million and the aggregate of the service cost and interest cost components by less than $0.1 million. Conversely, a one-percentage-point decrease in the health care cost trend rate for future years would decrease the accumulated postretirement benefit obligation by $0.6 million and the aggregate of the service cost and interest rate components by less than $0.1 million.

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

| *(Amounts in millions)* | Amount |
|---|---|
| Year: | |
| 2017 | $ 4.4 |
| 2018 | 4.5 |
| 2019 | 4.6 |
| 2020 | 4.8 |
| 2021 | 4.8 |
| 2022-2026 | 23.9 |

The objective of the VEBA trust is to achieve net of expense returns that meet or exceed the 6.6% long-term return on plan assets assumption used for reporting purposes. Investments are diversified to attempt to minimize the risk of large losses. Since asset allocation is a key determinant of expected investment returns, assets are periodically rebalanced to the targeted allocation to correct significant deviations from the asset allocation policy that are caused by market fluctuations and cash flow.

The basis for determining the overall expected long-term return on plan assets assumption is a nominal returns forecasting method. For each asset class, future returns are estimated by identifying the premium of riskier asset classes over lower risk alternatives. The methodology constructs expected returns using a building block approach to the individual components of total return. These forecasts are stated in both nominal and real (after inflation) terms. This process first considers the long-term historical return premium based on the longest set of data available for each asset class. These premiums, which are calculated using the geometric mean, are then adjusted based on current relative

valuation levels and macro-economic conditions. The asset return assumption is also adjusted by an implicit expense load for estimated administrative and investment-related expenses.

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*Notes to Consolidated Financial Statements (continued)*

Snap-on s VEBA plan target allocation and actual weighted-average asset allocation by asset category and fair value of plan assets as of 2016 and 2015 year end are as follows:

| | Target | 2016 | 2015 |
|---|---|---|---|
| Asset category: | | | |
| Debt securities and cash and cash equivalents | 46% | 45% | 44% |
| Equity securities | 29% | 28% | 27% |
| Hedge funds | 25% | 27% | 29% |
| Total | 100% | 100% | 100% |
| Fair value of plan assets *(Amounts in millions)* | | $ 13.2 | $ 13.7 |

The fair value measurement hierarchy prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority (Level 1) to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority (Level 3) to unobservable inputs. Fair value measurements primarily based on observable market information are given a Level 2 priority.

Debt securities are valued at quoted per share or unit market prices for which an official close or last trade pricing on an active exchange is available and are categorized as Level 1 in the fair value hierarchy.

Equity securities are valued at the NAV per share or unit multiplied by the number of shares or units held as of the measurement date, as reported by the fund managers. The share or unit price is quoted on a private market and is based on the value of the underlying investments, which are primarily based on observable inputs; such investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

Hedge funds are stated at the NAV per share or unit (based on the estimated fair market value of the underlying investments) multiplied by the number of shares or units held as of the measurement date, as reported by the fund managers. These investments are measured at fair value using the NAV per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy.

The company regularly reviews fund performance directly with its investment advisor and the fund managers, and performs qualitative analysis to corroborate the reasonableness of the reported NAVs. For funds for which the company did not receive a year-end NAV, the company recorded an estimate of the change in fair value for the latest period based on return estimates and other fund activity obtained from the fund managers.

The columns labeled Investments Measured at NAV in the following tables are measured at fair value using the NAV per share (or its equivalent) practical expedient and have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit a reconciliation of the fair value hierarchy to the VEBA plan assets.

The following is a summary, by asset category, of the fair value and the level within the fair value hierarchy of the VEBA plan assets as of 2016 year end:

| *(Amounts in millions)* | Quoted Prices for Identical Assets (Level 1) | Investments Measured at NAV | Total |
|---|---|---|---|
| Asset category: | | | |
| Cash and cash equivalents | $ 0.7 | $ | $ 0.7 |
| Debt securities | 5.3 | | 5.3 |
| Equity securities | | 3.6 | 3.6 |
| Hedge fund | | 3.6 | 3.6 |
| Total | $ 6.0 | $ 7.2 | $ 13.2 |

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The following is a summary, by asset category, of the fair value and the level within the fair value hierarchy of the VEBA plan assets as of 2015 year end:

| *(Amounts in millions)* | Quoted Prices for Identical Assets (Level 1) | Investments Measured at NAV | Total |
|---|---|---|---|
| Asset category: | | | |
| Cash and cash equivalents | $ 0.1 | $ | $ 0.1 |
| Debt securities | 6.0 | | 6.0 |
| Equity securities | | 3.7 | 3.7 |
| Hedge fund | | 3.9 | 3.9 |
| Total | $ 6.1 | $ 7.6 | $ 13.7 |

**Note 13: Stock-based Compensation and Other Stock Plans**

The 2011 Incentive Stock and Awards Plan (the 2011 Plan ) provides for the grant of stock options, performance awards, stock appreciation rights ( SARs ) and restricted stock awards (which may be designated as restricted stock units or RSUs ). No further grants are being made under its predecessor, the 2001 Incentive Stock and Awards Plan (the 2001 Plan ), although outstanding awards under the 2001 Plan will continue until exercised, vested, forfeited or expired. As of 2016 year end, the 2011 Plan had 4,121,252 shares available for future grants. The company uses treasury stock to deliver shares under both the 2001 and 2011 Plans.

Net stock-based compensation expense was $31.0 million in 2016, $39.8 million in 2015 and $38.1 million in 2014. Cash received from stock purchase and option plan exercises was $41.8 million in 2016, $41.6 million in 2015 and $33.0 million in 2014. The tax benefit realized from both the exercise and vesting of share-based payment arrangements was $24.8 million in 2016, $26.4 million in 2015 and $22.3 million in 2014.

*Stock Options*

Stock options are granted with an exercise price equal to the market value of a share of Snap-on s common stock on the date of grant and have a contractual term of ten years. Stock option grants vest ratably on the first, second and third anniversaries of the date of grant.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model. The company uses historical data regarding stock option exercise and forfeiture behaviors for different participating groups to estimate the period of time that options granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company s stock for the length of time corresponding to the expected term of the option. The expected dividend yield is based on the company s historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve on the grant date for the expected term of the option.

The following weighted-average assumptions were used in calculating the fair value of stock options granted during 2016, 2015 and 2014, using the Black-Scholes valuation model:

| | 2016 | 2015 | 2014 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Expected term of option *(in years)* | 5.05 | 4.76 | 4.52 |
| Expected volatility factor | 22.17% | 24.13% | 26.76% |
| Expected dividend yield | 1.77% | 2.04% | 2.40% |
| Risk-free interest rate | 1.04% | 1.38% | 1.30% |

*Notes to Consolidated Financial Statements (continued)*

A summary of stock option activity during 2016 is presented below:

| | Shares *(in thousands)* | Exercise Price per Share* | Remaining Contractual Term* *(in years)* | Aggregate Intrinsic Value *(in millions)* |
|---|---|---|---|---|
| Outstanding at beginning of year | 2,811 | $ 88.62 | | |
| Granted | 644 | 138.04 | | |
| Exercised | (416) | 74.10 | | |
| Forfeited or expired | (28) | 133.11 | | |
| Outstanding at end of year | 3,011 | 100.78 | 6.6 | $ 212.3 |
| Exercisable at end of year | 1,776 | 76.51 | 5.3 | 168.3 |

* Weighted-average

The weighted-average grant date fair value of options granted was $22.99 in 2016, $25.64 in 2015 and $20.19 in 2014. The intrinsic value of options exercised was $35.2 million in 2016, $37.6 million in 2015 and $24.6 million in 2014. The fair value of stock options vested was $12.7 million in 2016, $9.9 million in 2015 and $9.6 million in 2014.

As of 2016 year end, there was $16.6 million of unrecognized compensation cost related to non-vested stock options that is expected to be recognized as a charge to earnings over a weighted-average period of 1.5 years.

*Performance Awards*

Performance awards, which are granted as performance share units and performance-based RSUs, are earned and expensed using the fair value of the award over a contractual term of three years based on the company s performance. Vesting of the performance awards is dependent upon performance relative to pre-defined goals for revenue growth and return on net assets for the applicable performance period. For performance achieved above specified levels, the recipient may earn additional shares of stock, not to exceed 100% of the number of performance awards initially granted.

The performance share units have a three-year performance period based on the results of the consolidated financial metrics of the company. The performance-based RSUs have a one-year performance period based on the results of the consolidated financial metrics of the company followed by a two-year cliff vesting schedule, assuming continued employment.

The fair value of performance awards is calculated using the market value of a share of Snap-on s common stock on the date of grant and assumed forfeitures based on recent historical experience; in recent years, forfeitures have not been significant. The weighted-average grant date fair value of performance awards granted during 2016, 2015 and 2014 was $138.83, $139.30 and $102.11, respectively. Vested performance share units totaled 61,149 shares as of 2016 year end, 94,186 shares as of 2015 year end and 130,764 shares as of 2014 year end. Performance share units related to 94,186 shares, 130,764 shares and 146,313 shares were paid out in 2016, 2015 and 2014, respectively. Earned performance share units are generally paid out following the conclusion of the applicable performance period upon approval by the Organization and

Executive Compensation Committee of the company s Board of Directors (the Board ).

Based on the company s 2016 performance, 45,502 RSUs granted in 2016 were earned; assuming continued employment, these RSUs will vest at the end of fiscal 2018. Based on the company s 2015 performance, 64,327 RSUs granted in 2015 were earned; assuming continued employment, these RSUs will vest at the end of fiscal 2017. Based on the company s 2014 performance, 78,585 RSUs granted in 2014 were earned; these RSUs vested as of fiscal 2016 year end and were paid out shortly thereafter.

Changes to the company s non-vested performance awards in 2016 are as follows:

| | Shares (in thousands) | Fair Value Price per Share* |
|---|---|---|
| Non-vested performance awards at beginning of year | 265 | $ 124.16 |
| Granted | 97 | 138.83 |
| Vested | (136) | 109.43 |
| Cancellations and other | (19) | 112.14 |
| Non-vested performance awards at end of year | 207 | 141.94 |

* Weighted-average

As of 2016 year end, there was $13.7 million of unrecognized compensation cost related to non-vested performance awards that is expected to be recognized as a charge to earnings over a weighted-average period of 1.6 years.

*Stock Appreciation Rights ( SARs )*

The company also issues stock-settled and cash-settled SARs to certain key non-U.S. employees. SARs have a contractual term of ten years and vest ratably on the first, second and third anniversaries of the date of grant. SARs are granted with an exercise price equal to the market value of a share of Snap-on s common stock on the date of grant.

Stock-settled SARs are accounted for as equity instruments and provide for the issuance of Snap-on common stock equal to the amount by which the company s stock has appreciated over the exercise price. Stock-settled SARs have an effect on dilutive shares and shares outstanding as any appreciation of Snap-on s common stock value over the exercise price will be settled in shares of common stock. Cash-settled SARs provide for the cash payment of the excess of the fair market value of Snap-on s common stock price on the date of exercise over the grant price. Cash-settled SARs have no effect on dilutive shares or shares outstanding as any appreciation of Snap-on s common stock over the grant price is paid in cash and not in common stock.

The fair value of stock-settled SARs is estimated on the date of grant using the Black-Scholes valuation model. The fair value of cash-settled SARs is revalued (mark-to-market) each reporting period using the Black-Scholes valuation model based on Snap-on s period-end stock price. The company uses historical data regarding SARs exercise and forfeiture behaviors for different participating groups to estimate the expected term of the SARs granted based on the period of time that similar instruments granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company s stock for the length of time corresponding to the expected term of the SARs. The expected dividend yield is based on the company s historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve in effect as of the grant date (for stock-settled SARs) or reporting date (for cash-settled SARs) for the length of time corresponding to the expected term of the SARs.

The following weighted-average assumptions were used in calculating the fair value of stock-settled SARs granted during 2016, 2015 and 2014, using the Black-Scholes valuation model:

| | 2016 | 2015 | 2014 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Expected term of stock-settled SARs *(in years)* | 4.03 | 4.72 | 4.49 |
| Expected volatility factor | 20.09% | 23.66% | 25.64% |
| Expected dividend yield | 1.66% | 2.04% | 2.40% |
| Risk-free interest rate | 1.11% | 1.50% | 1.50% |

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*Notes to Consolidated Financial Statements (continued)*

Changes to the company s stock-settled SARs in 2016 are as follows:

| | Stock-settled SARs *(in thousands)* | Exercise Price per Share* | Remaining Contractual Term* *(in years)* | Aggregate Intrinsic Value *(in millions)* |
|---|---|---|---|---|
| Outstanding at beginning of year | 269 | $ 113.70 | | |
| Granted | 101 | 138.05 | | |
| Exercised | (26) | 89.10 | | |
| Forfeited or expired | (41) | 103.29 | | |
| Outstanding at end of year | 303 | 125.38 | 7.9 | $ 13.9 |
| Exercisable at end of year | 106 | 106.50 | 7.0 | 6.8 |

* Weighted-average

The weighted-average grant date fair value of stock-settled SARs granted was $19.47 in 2016, $25.37 in 2015 and $19.55 in 2014. The intrinsic value of stock-settled SARs exercised was $1.9 million in 2016, $1.0 million in 2015 and $0.1 million in 2014. The fair value of stock-settled SARs vested was $2.1 million in 2016, $1.4 million in 2015 and $0.6 million in 2014.

As of 2016 year end there was $2.4 million of unrecognized compensation cost related to non-vested stock-settled SARs that is expected to be recognized as a charge to earnings over a weighted-average period of 1.5 years.

The following weighted-average assumptions were used in calculating the fair value of cash-settled SARs granted during 2016, 2015 and 2014, using the Black-Scholes valuation model:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Expected term of cash-settled SARs *(in years)* | 3.11 | 3.10 | 3.53 |
| Expected volatility factor | 19.53% | 18.14% | 23.92% |
| Expected dividend yield | 1.56% | 1.69% | 2.11% |
| Risk-free interest rate | 1.47% | 1.31% | 1.07% |

The intrinsic value of cash-settled SARs exercised was $3.3 million in 2016, $11.0 million in 2015 and $5.5 million in 2014. The fair value of cash-settled SARs vested during 2016, 2015 and 2014 was $0.2 million, $4.6 million and $5.9 million, respectively.

Changes to the company s non-vested cash-settled SARs in 2016 are as follows:

| | Cash-settled SARs *(in thousands)* | Fair Value Price per Share* |
|---|---|---|
| Non-vested cash-settled SARs at beginning of year | 7 | $ 51.71 |
| Granted | 4 | 39.51 |
| Vested | (4) | 61.42 |
| Non-vested cash-settled SARs at end of year | 7 | 40.83 |

* Weighted-average

As of 2016 year end there was $0.3 million of unrecognized compensation cost related to non-vested cash-settled SARs that is expected to be recognized as a charge to earnings over a weighted-average period of 1.5 years.

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*Restricted Stock Awards Non-employee Directors*

The company awarded 7,145 shares, 8,640 shares and 10,398 shares of restricted stock to non-employee directors in 2016, 2015 and 2014, respectively. The fair value of the restricted stock awards is expensed over a one year vesting period based on the fair value on the date of grant. All restrictions for the restricted stock generally lapse upon the earlier of the first anniversary of the grant date, the recipient s death or disability or in the event of a change in control, as defined in the 2011 Plan. If termination of the recipient s service occurs prior to the first anniversary of the grant date for any reason other than death or disability, the shares of restricted stock would be forfeited, unless otherwise determined by the Board.

*Directors Fee Plan*

Under the Directors 1993 Fee Plan, as amended, non-employee directors may elect to receive up to 100% of their fees and retainer in shares of Snap-on s common stock. Directors may elect to defer receipt of all or part of these shares. For 2016, 2015 and 2014, issuances under the Directors Fee Plan totaled 2,579 shares, 2,747 shares and 21,533 shares, respectively, of which 2,019 shares, 1,969 shares and 20,483 shares, respectively, were deferred. As of 2016 year end, shares reserved for issuance to directors under this plan totaled 158,105 shares.

*Employee Stock Purchase Plan*

Substantially all Snap-on employees in the United States and Canada are eligible to participate in an employee stock purchase plan. The purchase price of the company s common stock to participants is the lesser of the mean of the high and low price of the stock on the beginning date (May 15) or ending date (the following May 14) of each plan year. For 2016, 2015 and 2014, issuances under this plan totaled 27,156 shares, 57,324 shares and 56,582 shares, respectively. As of 2016 year end, shares reserved for issuance under this plan totaled 780,563 shares and Snap-on held participant contributions of approximately $2.4 million. Participants are able to withdraw from the plan at any time prior to the ending date and receive back all contributions made during the plan year. Compensation expense for plan participants was zero in 2016, $2.3 million in 2015 and $1.5 million in 2014.

*Franchisee Stock Purchase Plan*

All franchisees in the United States and Canada are eligible to participate in a franchisee stock purchase plan. The purchase price of the company s common stock to participants is the lesser of the mean of the high and low price of the stock on the beginning date (May 15) or ending date (the following May 14) of each plan year. For 2016, 2015 and 2014, issuances under this plan totaled 42,867 shares, 74,001 shares and 74,502 shares, respectively. As of 2016 year end, shares reserved for issuance under this plan totaled 613,469 shares and Snap-on held participant contributions of approximately $4.6 million. Participants are able to withdraw from the plan at any time prior to the ending date and receive back all contributions made during the plan year. The company recognized a mark-to-market benefit of $0.2 million in 2016; mark-to-market expense for plan participants was $2.9 million in 2015 and $1.7 million in 2014.

**Note 14: Capital Stock**

Snap-on has undertaken repurchases of Snap-on common stock from time to time to offset dilution created by shares issued for employee and franchisee stock purchase plans, stock awards and other corporate purposes. Snap-on repurchased 758,000 shares, 723,000 shares and 680,000 shares in 2016, 2015 and 2014, respectively. As of 2016 year end, Snap-on has remaining availability to repurchase up to an additional $207.2 million in common stock pursuant to Board authorizations. The purchase of Snap-on common stock is at the company s discretion, subject to prevailing financial and market conditions.

Cash dividends paid in 2016, 2015 and 2014 totaled $147.5 million, $127.9 million and $107.6 million, respectively. Cash dividends per share in 2016, 2015 and 2014 were $2.54, $2.20 and $1.85, respectively. On February 9, 2017, the company s Board declared a quarterly dividend of $0.71 per share, payable on March 10, 2017, to shareholders of record on February 24, 2017.

*Notes to Consolidated Financial Statements (continued)*

**Note 15: Commitments and Contingencies**

Snap-on leases facilities, office equipment and vehicles under non-cancelable operating and capital leases that extend for varying amounts of time. Snap-on s future minimum lease commitments under these leases, net of sub-lease rental income, are as follows:

| *(Amounts in millions)* | Operating Leases | Capital Leases |
|---|---|---|
| Year: | | |
| 2017 | $ 23.0 | $ 3.7 |
| 2018 | 18.3 | 3.3 |
| 2019 | 13.9 | 2.9 |
| 2020 | 9.4 | 2.6 |
| 2021 | 6.4 | 2.1 |
| 2022 and thereafter | 10.5 | 5.6 |
| Total minimum lease payments | $ 81.5 | $ 20.2 |
| Less: amount representing interest | | (1.5) |
| Total present value of minimum capital lease payments | | $ 18.7 |

Amounts included in the accompanying Consolidated Balance Sheets for the present value of minimum capital lease payments as of 2016 year end are as follows:

| *(Amounts in millions)* | 2016 |
|---|---|
| Other accrued liabilities | $ 3.3 |
| Other long-term liabilities | 15.4 |
| Total present value of minimum capital lease payments | $ 18.7 |

Rent expense for worldwide facilities, office equipment and vehicles, net of sub-lease rental income, was $31.2 million, $29.4 million and $30.6 million in 2016, 2015 and 2014, respectively.

Snap-on provides product warranties for specific product lines and accrues for estimated future warranty cost in the period in which the sale is recorded. Snap-on calculates its accrual requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience, including the timing of claims during the warranty period and actual costs incurred. Snap-on s product warranty accrual activity for 2016, 2015 and 2014 is as follows:

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Warranty accrual: | | | |
| Beginning of year | $ 16.4 | $ 17.3 | $ 17.0 |
| Additions | 12.8 | 13.3 | 14.6 |
| Usage | (13.2) | (14.2) | (14.3) |
| End of year | $ 16.0 | $ 16.4 | $ 17.3 |

Approximately 2,800 employees, or 23% of Snap-on s worldwide workforce, are represented by unions and/or covered under collective bargaining agreements. The number of covered union employees whose contracts expire over the next five years approximates 2,100 employees in 2017, 500 employees in 2018, and 200 employees in 2019; there are no contracts currently scheduled to expire in 2020 or 2021. In recent years, Snap-on has not experienced any significant work slowdowns, stoppages or other labor disruptions.

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

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**Note 16: Other Income (Expense) Net**

Other income (expense) net on the accompanying Consolidated Statements of Earnings consists of the following:

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Interest income | $ 0.6 | $ 0.5 | $ 0.5 |
| Net foreign exchange loss | (1.3) | (2.7) | (1.5) |
| Other | 0.1 | (0.2) | 0.1 |
| Total other income (expense) net | $ (0.6) | $ (2.4) | $ (0.9) |

**Note 17: Accumulated Other Comprehensive Income (Loss)**

The following is a summary of net changes in Accumulated OCI by component and net of tax for 2016 and 2015:

| *(Amounts in millions)* | Foreign Currency Translation | Cash Flow Hedges | Defined Benefit Pension and Postretirement Plans | Total |
|---|---|---|---|---|
| Balance as of 2014 year end | $ (7.7) | $ 1.0 | $ (241.5) | $ (248.2) |
| Other comprehensive loss before reclassifications | (110.8) | | (28.9) | (139.7) |
| Amounts reclassified from Accumulated OCI | | (0.3) | 24.0 | 23.7 |
| Net other comprehensive loss | (110.8) | (0.3) | (4.9) | (116.0) |
| Balance as of 2015 year end | $ (118.5) | $ 0.7 | $ (246.4) | $ (364.2) |
| Other comprehensive income (loss) before reclassifications | (99.2) | 8.8 | (62.6) | (153.0) |
| Amounts reclassified from Accumulated OCI | | (0.3) | 19.0 | 18.7 |
| Net other comprehensive income (loss) | (99.2) | 8.5 | (43.6) | (134.3) |
| Balance as of 2016 year end | $ (217.7) | $ 9.2 | $ (290.0) | $ (498.5) |

The reclassifications out of Accumulated OCI in 2016 and 2015 are as follows:

| Details about Accumulated OCI Components | Amounts Reclassified from Accumulated OCI | | Statement of Earnings Presentation |
|---|---|---|---|
| *(Amounts in millions)* | 2016 | 2015 | |
| Gains on cash flow hedges: | | | |

| | | | |
|---|---|---|---|
| Treasury locks | $ 0.3 | $ 0.3 | Interest expense |
| Income tax expense | | | Income tax expense |
| Net of tax | 0.3 | 0.3 | |
| Amortization of net unrecognized losses and prior service credits | (30.1) | (38.0) | See footnote below* |
| Income tax benefit | 11.1 | 14.0 | Income tax expense |
| Net of tax | (19.0) | (24.0) | |
| Total reclassifications for the period, net of tax | $ (18.7) | $ (23.7) | |

* These Accumulated OCI components are included in the computation of net periodic pension and postretirement health care costs; see Note 11 and Note 12 for further information.

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*Notes to Consolidated Financial Statements (continued)*

**Note 18: Segments**

Snap-on s business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on s reportable business segments are: (i) the Commercial & Industrial Group; (ii) the Snap-on Tools Group; (iii) the Repair Systems & Information Group; and (iv) Financial Services. The Commercial & Industrial Group consists of business operations serving a broad range of industrial and commercial customers worldwide, including customers in the aerospace, natural resources, government, power generation, transportation and technical education market segments (collectively, critical industries ), primarily through direct and distributor channels. The Snap-on Tools Group consists of business operations primarily serving vehicle service and repair technicians through the company s worldwide mobile tool distribution channel. The Repair Systems & Information Group consists of business operations serving other professional vehicle repair customers worldwide, primarily owners and managers of independent repair shops and original equipment manufacturer ( OEM ) dealership service and repair shops ( OEM dealerships ), through direct and distributor channels. Financial Services consists of the business operations of Snap-on s finance subsidiaries.

Snap-on evaluates the performance of its operating segments based on segment revenues, including both external and intersegment net sales, and segment operating earnings. Snap-on accounts for intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Identifiable assets by segment are those assets used in the respective reportable segment s operations. Corporate assets consist of cash and cash equivalents (excluding cash held at Financial Services), deferred income taxes and certain other assets. All significant intersegment amounts are eliminated to arrive at Snap-on s consolidated financial results.

Neither Snap-on nor any of its segments depend on any single customer, small group of customers or government for more than 10% of its revenues.

**Financial Data by Segment:**

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net sales: | | | |
| Commercial & Industrial Group | $ 1,148.3 | $ 1,163.6 | $ 1,174.8 |
| Snap-on Tools Group | 1,633.9 | 1,568.7 | 1,455.2 |
| Repair Systems & Information Group | 1,179.9 | 1,113.2 | 1,095.2 |
| Segment net sales | 3,962.1 | 3,845.5 | 3,725.2 |
| Intersegment eliminations | (531.7) | (492.7) | (447.5) |
| Total net sales | $ 3,430.4 | $ 3,352.8 | $ 3,277.7 |
| Financial Services revenue | 281.4 | 240.3 | 214.9 |
| Total revenues | $ 3,711.8 | $ 3,593.1 | $ 3,492.6 |
| Operating earnings: | | | |
| Commercial & Industrial Group | $ 168.0 | $ 169.4 | $ 158.6 |
| Snap-on Tools Group | 281.1 | 256.0 | 223.1 |
| Repair Systems & Information Group | 297.8 | 273.4 | 251.2 |

| | | | |
|---|---|---|---|
| Financial Services | 198.7 | 170.2 | 149.1 |
| Segment operating earnings | 945.6 | 869.0 | 782.0 |
| Corporate | (91.4) | (104.2) | (97.3) |
| Operating earnings | 854.2 | 764.8 | 684.7 |
| Interest expense | (52.2) | (51.9) | (52.9) |
| Other income (expense) net | (0.6) | (2.4) | (0.9) |
| Earnings before income taxes and equity earnings | $ 801.4 | $ 710.5 | $ 630.9 |

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**Financial Data by Segment (continued):**

| *(Amounts in millions)* | 2016 | 2015 |
|---|---|---|
| Assets: | | |
| Commercial & Industrial Group | $ 907.1 | $ 901.6 |
| Snap-on Tools Group | 668.1 | 646.7 |
| Repair Systems & Information Group | 1,211.0 | 1,041.6 |
| Financial Services | 1,789.7 | 1,572.4 |
| Total assets from reportable segments | 4,575.9 | 4,162.3 |
| Corporate | 212.3 | 203.6 |
| Elimination of intersegment receivables | (65.0) | (34.8) |
| Total assets | $ 4,723.2 | $ 4,331.1 |

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Capital expenditures: | | | |
| Commercial & Industrial Group | $ 19.3 | $ 31.0 | $ 28.5 |
| Snap-on Tools Group | 38.3 | 38.1 | 36.9 |
| Repair Systems & Information Group | 13.1 | 9.0 | 10.6 |
| Financial Services | 0.6 | 1.0 | 0.4 |
| Total from reportable segments | 71.3 | 79.1 | 76.4 |
| Corporate | 3.0 | 1.3 | 4.2 |
| Total capital expenditures | $ 74.3 | $ 80.4 | $ 80.6 |
| Depreciation and amortization: | | | |
| Commercial & Industrial Group | $ 20.7 | $ 20.1 | $ 20.8 |
| Snap-on Tools Group | 27.6 | 24.9 | 21.4 |
| Repair Systems & Information Group | 33.9 | 34.0 | 33.7 |
| Financial Services | 0.6 | 0.7 | 0.9 |
| Total from reportable segments | 82.8 | 79.7 | 76.8 |
| Corporate | 2.8 | 2.8 | 2.7 |
| Total depreciation and amortization | $ 85.6 | $ 82.5 | $ 79.5 |
| Revenues by geographic region:* | | | |
| United States | $ 2,588.8 | $ 2,483.9 | $ 2,288.9 |
| Europe | 654.4 | 635.0 | 701.9 |
| All other | 468.6 | 474.2 | 501.8 |

| | | | |
|---|---|---|---|
| Total revenues | $ 3,711.8 | $ 3,593.1 | $ 3,492.6 |

| | 2016 | 2015 |
|---|---|---|
| Long-lived assets:** | | |
| United States | $ 1,048.6 | $ 1,033.3 |
| Sweden | 218.8 | 114.5 |
| All other | 237.9 | 250.8 |
| Total long-lived assets | $ 1,505.3 | $ 1,398.6 |

* Revenues are attributed to countries based on the origin of the sale.

** Long-lived assets consist of Property and equipment net, Goodwill, and Other intangibles net.

*Notes to Consolidated Financial Statements (continued)*

**Products and Services:** Snap-on derives net sales from a broad line of products and complementary services that are grouped into three categories: (i) tools; (ii) diagnostics and repair information; and (iii) equipment. The tools product category includes Snap-on s hand tools, power tools and tool storage products. The diagnostics and repair information product category includes handheld and PC-based diagnostic products, service and repair information products, diagnostic software solutions, electronic parts catalogs, and business management systems and services to help owners and managers of independent repair shops and OEM dealerships manage and track performance. The equipment product category includes solutions for the diagnosis and service of vehicles and industrial equipment. Through its financial services businesses, Snap-on also derives revenue from various financing programs designed to facilitate the sales of its products and support its franchise business. Further product line information is not presented as it is not practicable to do so.

The following table shows the consolidated net sales and revenues of these product groups in the last three years:

| *(Amounts in millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net sales: | | | |
| Tools | $ 1,899.2 | $ 1,910.1 | $ 1,868.5 |
| Diagnostics and repair information | 748.2 | 689.6 | 689.5 |
| Equipment | 783.0 | 753.1 | 719.7 |
| Total net sales | $ 3,430.4 | $ 3,352.8 | $ 3,277.7 |
| Financial services revenue | 281.4 | 240.3 | 214.9 |
| Total revenues | $ 3,711.8 | $ 3,593.1 | $ 3,492.6 |

**Note 19: Quarterly Data** (unaudited)

| *(Amounts in millions, except per share data)* | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Net sales | $ 834.2 | $ 872.3 | $ 834.1 | $ 889.8 | $ 3,430.4 |
| Gross profit | 415.3 | 431.3 | 419.1 | 443.9 | 1,709.6 |
| Financial services revenue | 66.3 | 69.3 | 71.6 | 74.2 | 281.4 |
| Financial services expenses | (19.3) | (19.8) | (21.0) | (22.6) | (82.7) |
| Net earnings | 131.3 | 143.4 | 135.2 | 149.7 | 559.6 |
| Net earnings attributable to Snap-on Incorporated | 128.3 | 140.1 | 131.7 | 146.3 | 546.4 |
| Earnings per share basic | 2.21 | 2.41 | 2.27 | 2.52 | 9.40 |
| Earnings per share diluted | 2.16 | 2.36 | 2.22 | 2.47 | 9.20 |
| Cash dividends paid per share | 0.61 | 0.61 | 0.61 | 0.71 | 2.54 |

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Net sales | $ 827.8 | $ 851.8 | $ 821.5 | $ 851.7 | $ 3,352.8 |
| Gross profit | 410.1 | 419.0 | 406.9 | 412.3 | 1,648.3 |
| Financial services revenue | 57.4 | 58.7 | 61.1 | 63.1 | 240.3 |
| Financial services expenses | (17.1) | (17.3) | (17.6) | (18.1) | (70.1) |
| Net earnings | 113.2 | 123.0 | 119.9 | 134.5 | 490.6 |
| Net earnings attributable to Snap-on Incorporated | 110.5 | 120.0 | 116.8 | 131.4 | 478.7 |
| Earnings per share basic | 1.90 | 2.07 | 2.01 | 2.26 | 8.24 |
| Earnings per share diluted | 1.87 | 2.03 | 1.98 | 2.22 | 8.10 |
| Cash dividends paid per share | 0.53 | 0.53 | 0.53 | 0.61 | 2.20 |

**Note 20: Subsequent Event**

On January 17, 2017, Snap-on repaid the 2017 Notes upon maturity with an aggregate of $150 million of available cash and cash generated from issuances of commercial paper.

## SIGNATURES

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

SNAP-ON INCORPORATED

By: /s/ Nicholas T. Pinchuk
Nicholas T. Pinchuk, Chairman, President

and Chief Executive Officer

Date: February 9, 2017

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

| | |
|---|---|
| /s/ Nicholas T. Pinchuk<br>Nicholas T. Pinchuk, Chairman, President<br>and Chief Executive Officer | Date: February 9, 2017 |
| /s/ Aldo J. Pagliari<br>Aldo J. Pagliari, Principal Financial Officer, Senior<br>Vice President Finance and Chief Financial Officer | Date: February 9, 2017 |
| /s/ Constance R. Johnsen<br>Constance R. Johnsen, Principal Accounting Officer,<br>Vice President and Controller | Date: February 9, 2017 |

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## SIGNATURES

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

By: /s/ David C. Adams
David C. Adams, Director
Date: February 9, 2017

By: /s/ Karen L. Daniel
Karen L. Daniel, Director
Date: February 9, 2017

By: /s/ Ruth Ann M. Gillis
Ruth Ann M. Gillis, Director
Date: February 9, 2017

By: /s/ James P. Holden
James P. Holden, Director
Date: February 9, 2017

By: /s/ Nathan J. Jones
Nathan J. Jones, Director
Date: February 9, 2017

By: /s/ Henry W. Knueppel
Henry W. Knueppel, Director
Date: February 9, 2017

By: /s/ W. Dudley Lehman
W. Dudley Lehman, Director
Date: February 9, 2017

By: /s/ Nicholas T. Pinchuk
Nicholas T. Pinchuk, Director
Date: February 9, 2017

By: /s/ Gregg M. Sherrill
Gregg M. Sherrill, Director
Date: February 9, 2017

By: /s/ Donald J. Stebbins
Donald J. Stebbins, Director
Date: February 9, 2017

**Item 15(b): Exhibit Index [(*)]**

(3) (a) Restated Certificate of Incorporation of Snap-on Incorporated, as amended through April 25, 2013 (incorporated by reference to Exhibit 3.1 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended September 28, 2013 (Commission File No. 1-7724))

(b) Bylaws of Snap-on Incorporated, as amended and restated as of April 25, 2013 (incorporated by reference to Exhibit 3.2 to Snap-on s Current Report on Form 8-K dated April 25, 2013 (Commission File No. 1-7724))

(4) (a) Indenture, dated as of January 8, 2007, between Snap-on Incorporated and U.S. Bank National Association as trustee (incorporated by reference to Exhibit (4)(b) to Form S-3 Registration Statement (Registration No. 333-139863))

(b) Officer s Certificate, dated as of February 24, 2009, providing for the $200,000,000 6.70% Notes due 2019 (incorporated by reference to Exhibit 4.2 to Snap-on s Current Report on Form 8-K dated February 19, 2009 (Commission File No. 1-7724))

(c) Officer s Certificate, dated as of August 14, 2009, providing for the $250,000,000 6.125% Notes due 2021 (incorporated by reference to Exhibit 4.1 to Snap-on s Current Report on Form 8-K dated August 11, 2009 (Commission File No. 1-7724))

(d) Officer s Certificate, dated as of December 14, 2010, providing for the $250,000,000 4.25% Notes due 2018 (incorporated by reference to Exhibit 4.1 to Snap-on s Current Report on Form 8-K dated December 9, 2010 (Commission File No. 1-7724))

Except for the foregoing, Snap-on and its subsidiaries have no unregistered long-term debt agreement for which the related outstanding debt exceeds 10% of consolidated total assets as of December 31, 2016. 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) Amended and Restated Snap-on Incorporated 2001 Incentive Stock and Awards Plan (Amended and Restated as of April 27, 2006, as further amended on August 6, 2009) (incorporated by reference to Exhibit 10.1 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended October 3, 2009 (Commission File No. 1-7724))** (superseded except as to outstanding awards)

(b) Snap-on Incorporated 2011 Incentive Stock and Awards Plan (Amended and Restated as of April 30, 2015) (incorporated by reference to Appendix A to Snap-on s Definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, filed with the Securities and Exchange Commission on March 12, 2015 (Commission File No. 1-7724))**

(c) Form of Restated Executive Agreement between Snap-on Incorporated and each of its executive officers (incorporated by reference to Exhibit 10.1 to Snap-on s Current Report on Form 8-K dated January 31, 2008 (Commission File No. 1-7724))**

(d)(1) Form of Indemnification Agreement between Snap-on Incorporated and certain executive officers (incorporated by reference to Exhibit 10.1 to Snap-on s Annual Report on Form 10-K for the fiscal year ended January 1, 2011 (Commission File No. 1-7724))**

(d)(2) Form of Indemnification Agreement between Snap-on Incorporated and directors (incorporated by reference to Exhibit 10.1 to Snap-on s Annual Report on Form 10-K for the fiscal year ended January 1, 2011 (Commission File No. 1-7724))**

(e)(1) Amended and Restated Snap-on Incorporated Directors 1993 Fee Plan (as amended through August 5, 2010) (incorporated by reference to Exhibit 10.1 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended October 2, 2010 (Commission File No. 1-7724))**

(e)(2) Amendment to Amended and Restated Snap-on Incorporated Directors 1993 Fee Plan (incorporated by reference to Exhibit 10(e)(2) to Snap-on s Annual Report on Form 10-K for the fiscal year ended December 28, 2013 (Commission File

No. 1-7724))**

(f)(1) Snap-on Incorporated Deferred Compensation Plan (as amended and restated as of September 1, 2011) (incorporated by reference to Exhibit 10(g) to Snap-on s Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (Commission File No. 1-7724))**

(f)(2) Amendment to Snap-on Incorporated Deferred Compensation Plan (incorporated by reference to Exhibit 10(f)(2) to Snap-on s Annual Report on Form 10-K for the fiscal year ended December 28, 2013 (Commission File No. 1-7724))**

(g) Snap-on Incorporated Supplemental Retirement Plan for Officers (as amended through June 11, 2010) (incorporated by reference to Exhibit 10.2 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended July 3, 2010 (Commission File No. 1-7724))**

(h) Form of Non-Qualified Stock Option Agreement under the 2001 Incentive Stock and Awards Plan (and accompanying Non-Qualified Stock Option Grant Offer Letter) (incorporated by reference to Exhibit 10.1 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007 (Commission File No. 1-7724))**

(i) Form of Restricted Stock Unit Agreement for Directors under the 2001 Incentive Stock and Awards Plan (and accompanying Restricted Stock Unit Offer Letter) (incorporated by reference to Exhibit 10.2 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended October 3, 2009 (Commission File No. 1-7724))**

(j) Form of Non-Qualified Stock Option Agreement under the 2011 Incentive Stock and Awards Plan (and accompanying Non-Qualified Stock Option Grant Offer Letter) (incorporated by reference to Exhibit 10.1 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended October 1, 2011 (Commission File No. 1-7724))**

(k) Form of Performance Share Unit Award Agreement under the 2011 Incentive Stock and Awards Plan (incorporated by reference to Exhibit 10.1 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 (Commission File No. 1-7724))**

(l) Form of Restricted Unit Award Agreement for Executive Officers under the 2011 Incentive Stock and Awards Plan (incorporated by reference to Exhibit 10.1 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 (Commission File No. 1-7724))**

(m) Form of Restricted Unit Award Agreement for Directors under the 2011 Incentive Stock and Awards Plan (incorporated by reference to Exhibit 10.1 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 (Commission File No. 1-7724))**

(n) Form of Restricted Stock Award Agreement for Directors under the 2011 Incentive Stock and Awards Plan (incorporated by reference to Exhibit 10.1 to Snap-on s Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2013 (Commission File No. 1-7724))**

(o) Second Amended and Restated Five Year Credit Agreement, dated as of December 15, 2015, among Snap-on Incorporated and the lenders and agents listed on the signature pages thereof, and J.P. Morgan Securities LLC, Citigroup Global Markets Inc. and U.S. Bank National Association as joint lead arrangers and joint bookrunners (incorporated by reference to Exhibit 10.1 to Snap-on s Current Report on Form 8-K dated December 15, 2015 (Commission File No. 1-7724))

(12) Computation of Ratio of Earnings to Fixed Charges

(14) Snap-on Incorporated Section 406 of the Sarbanes-Oxley Act Code of Ethics (incorporated by reference to Exhibit 10(aa) to Snap-on s Annual Report on Form 10-K for the fiscal year ended January 3, 2004 (Commission File No. 1-7724))

(21) Subsidiaries of the Corporation

(23) Consent of Independent Registered Public Accounting Firm

(31.1) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(31.2) Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

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

(101.INS) XBRL Instance Document***

(101.SCH) XBRL Taxonomy Extension Schema Document***

(101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document***

(101.DEF) XBRL Taxonomy Extension Definition Linkbase Document***

(101.LAB) XBRL Taxonomy Extension Label Linkbase Document***

(101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document***

* Filed electronically or incorporated by reference as an exhibit to this Annual Report on Form 10-K. Copies of any materials the company files with the SEC can also be obtained free of charge through the SEC s website at www.sec.gov. The SEC s Public Reference Room can be contacted at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC s Public Reference Room at 1-800-732-0330.

** Represents a management compensatory plan or agreement.

*** Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Earnings for the twelve months ended December 31, 2016, January 2, 2016, and January 3, 2015; (ii) Consolidated Statements of Comprehensive Income for the twelve months ended December 31, 2016, January 2, 2016, and January 3, 2015; (iii) Consolidated Balance Sheets as of December 31, 2016, and January 2, 2016; (iv) Consolidated Statements of Equity for the twelve months ended December 31, 2016, January 2, 2016, and January 3, 2015; (v) Consolidated Statements of Cash Flows for the twelve months ended December 31, 2016, January 2, 2016, and January 3, 2015; and (vi) Notes to Consolidated Financial Statements.