ILLINOIS TOOL WORKS INC
Form 10-Q
October 29, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended September 30, 2007
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from _______________ to _______________

Commission File Number: 1-4797

ILLINOIS TOOL WORKS INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-1258310**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
3600 West Lake Avenue, Glenview, IL	**60026-1215**
(Address of principal executive offices)	**(Zip Code)**

(Registrant s telephone number, including area code)<u>**847-724-7500**</u>

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **x** No **o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated file (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer **x** Accelerated filer **o** Non-accelerated filer **o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes **o** No **x**

The number of shares of registrant s common stock, $0.01 par value, outstanding at September 30, 2007: 543,955,000.

<u>Part I Financial Information</u>

<u>Item 1 Financial Statements</u>

<u>ILLINOIS TOOL WORKS INC. and SUBSIDIARIES</u>

<u>FINANCIAL STATEMENTS</u>

The unaudited financial statements included herein have been prepared by Illinois Tool Works Inc. and Subsidiaries (the Company or ITW). In the opinion of management, the interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair statement of the results for interim periods. It is suggested that these financial statements be read in conjunction with the financial statements and notes to financial statements included in the Company s Annual Report on Form 10-K/A. Certain reclassifications of prior year data have been made to conform with current year reporting.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

STATEMENT OF INCOME

(UNAUDITED)

(In thousands except for per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Operating Revenues	$ 4,093,803	$ 3,538,014	$ 12,012,533	$ 10,414,520
Cost of revenues	2,642,744	2,292,192	7,767,288	6,704,687
Selling, administrative, and research and development expenses	715,662	593,719	2,162,565	1,797,361
Amortization and impairment of goodwill and other intangible assets	39,102	25,237	119,060	85,874
Operating Income	696,295	626,866	1,963,620	1,826,598
Interest expense	(25,824)	(20,804)	(75,832)	(58,710)
Other income	19,017	35,830	89,741	71,688
Income Before Taxes	689,488	641,892	1,977,529	1,839,576
Income Taxes	198,400	195,800	578,400	561,100
Net Income	$ 491,088	$ 446,092	$ 1,399,129	$ 1,278,476
Net Income Per Share:				
Basic	$0.89	$0.79	$2.52	$2.26
Diluted	$0.89	$0.78	$2.50	$2.24
Cash Dividends:				
Paid	$0.21	$0.165	$0.63	$0.495
Declared	$0.28	$0.210	$0.70	$0.540
Shares of Common Stock Outstanding During the Period:				
Average	549,561	567,637	555,474	566,114
Average assuming dilution	554,255	570,929	559,949	569,857

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

(UNAUDITED)

(In thousands)

	September 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and equivalents	$ 602,104	$ 590,207
Trade receivables	2,842,414	2,471,273
Inventories	1,607,759	1,482,508
Deferred income taxes	218,205	196,860
Prepaid expenses and other current assets	431,932	465,557
Total current assets	5,702,414	5,206,405
Plant and Equipment:		
Land	216,715	193,328

Buildings and improvements	1,427,969	1,374,926
Machinery and equipment	3,757,437	3,594,057
Equipment leased to others	149,275	149,682
Construction in progress	103,396	96,853
	5,654,792	5,408,846
Accumulated depreciation	(3,534,221)	(3,355,389)
Net plant and equipment	2,120,571	2,053,457
Investments	546,342	595,083
Goodwill	4,326,929	4,025,053
Intangible Assets	1,267,465	1,113,634
Deferred Income Taxes	116,904	116,245
Other Assets	801,561	770,562
	$ 14,882,186	$ 13,880,439
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term debt	$ 101,467	$ 462,721
Accounts payable	779,068	707,656
Accrued expenses	1,248,136	1,187,526
Cash dividends payable	152,307	117,337
Income taxes payable	125,038	161,344
Total current liabilities	2,406,016	2,636,584
Noncurrent Liabilities:		
Long-term debt	1,573,074	955,610
Deferred income taxes	324,332	259,159
Other	1,192,279	1,011,578
Total noncurrent liabilities	3,089,685	2,226,347
Stockholders Equity:		
Common stock	5,620	6,309
Additional paid-in-capital	142,920	1,378,587
Income reinvested in the business	9,556,758	10,406,511
Common stock held in treasury	(958,911)	(3,220,538)
Accumulated other comprehensive income	640,098	446,639
Total stockholders equity	9,386,485	9,017,508
	$ 14,882,186	$ 13,880,439

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

STATEMENT OF CASH FLOWS

(UNAUDITED)

(In thousands)

	Nine Months Ended September 30	
	2007	**2006**
Cash Provided by (Used for) Operating Activities:		
Net income	$ 1,399,129	$ 1,278,476
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	263,736	232,038
Amortization and impairment of goodwill and other intangible assets	119,060	85,874
Change in deferred income taxes	2,738	95,525
Provision for uncollectible accounts	5,970	8,590
Loss on sale of plant and equipment	1,247	433
Income from investments	(43,973)	(64,756)
(Gain) loss on sale of operations and affiliates	(36,475)	3,363
Stock compensation expense	22,775	27,858

Other non-cash items, net	(6,556)	(485)
Changes in assets and liabilities:		
(Increase) decrease in--		
Trade receivables	(121,676)	(75,713)
Inventories	(55,409)	(102,570)
Prepaid expenses and other assets	(20,841)	(40,852)
Increase (decrease) in--		
Accounts payable	(49,262)	936
Accrued expenses and other liabilities	529	41,829
Income taxes receivable and payable	209,077	(169,061)
Other, net	829	1,112
Net cash provided by operating activities	1,690,898	1,322,597
Cash Provided by (Used for) Investing Activities:		
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates	(619,509)	(728,303)
Additions to plant and equipment	(254,627)	(222,790)
Purchase of investments	(8,101)	(5,868)
Proceeds from investments	50,677	32,327
Proceeds from sale of plant and equipment	14,461	10,971
Proceeds from sale of operations and affiliates	160,348	13,234
Other, net	(6,859)	1,803
Net cash used for investing activities	(663,610)	(898,626)
Cash Provided by (Used for) Financing Activities:		
Cash dividends paid	(350,122)	(279,847)
Issuance of common stock	99,857	66,417
Repurchases of common stock	(958,911)	(247,985)
Net proceeds from short-term debt	196,912	275,268
Proceeds from long-term debt	108	139
Repayments of long-term debt	(11,267)	(7,425)
Excess tax benefits from share-based compensation	13,910	17,250
Repayment of preferred stock of subsidiary	(40,000)	
Net cash used for financing activities	(1,049,513)	(176,183)
Effect of Exchange Rate Changes on Cash and Equivalents	34,122	(293)
Cash and Equivalents:		
Increase during the period	11,897	247,495
Beginning of period	590,207	370,417
End of period	$ 602,104	$ 617,912
Cash Paid During the Period for Interest	$ 115,728	$ 57,521
Cash Paid During the Period for Income Taxes	$ 349,814	$ 630,991
Liabilities Assumed from Acquisitions	$ 387,672	$ 241,701

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

(1) COMPREHENSIVE INCOME

The Company s components of comprehensive income in the periods presented are:

(In thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Net income	$491,088	$446,092	$1,399,129	$1,278,476
Foreign currency translation adjustments	97,427	20,463	173,671	165,607
Amortization of unrecognized pension and post retirement expense	4,840		19,788	
Total comprehensive income	$593,355	$466,555	$1,592,588	$1,444,083

(2) INVENTORIES

Inventories at September 30, 2007 and December 31, 2006 were as follows:

(In thousands)

	September 30, 2007	December 31, 2006
Raw material	$ 512,810	$ 470,032
Work-in-process	188,083	166,946
Finished goods	906,866	845,530
	$ 1,607,759	$ 1,482,508

(3) GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess cost over fair value of the net assets of purchased businesses. *The Company does not amortize goodwill or intangible assets that have indefinite lives. In the first quarter of each year, the Company performs an annual impairment assessment of goodwill and intangible assets with indefinite lives based on the fair value of the related reporting unit or intangible asset.*

As of January 1, 2007, the Company had assigned its recorded goodwill and intangible assets to approximately 440 of its 750 reporting units. When performing its annual impairment assessment, the Company compares the fair value of each reporting unit to its carrying value. Fair values are determined by discounting estimated future cash flows at the Company s estimated cost of capital of 10%. Estimated future cash flows are based either on current operating cash flows or on a detailed cash flow forecast prepared by the relevant operating unit. If the fair value of an operating unit is less than its carrying value, an impairment loss is recorded for the difference between the implied fair value of the unit s goodwill and the carrying value of the goodwill.

Amortization and impairment of goodwill and other intangible assets for the periods ended September 30, 2007 and 2006 were as follows:

(In thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Goodwill:				
Impairment	$	$	$ 988	$ 9,200
Intangible Assets:				
Amortization	39,102	25,237	116,906	73,689
Impairment			1,166	2,985

Total	$ 39,102	$ 25,237	$ 119,060	$ 85,874

In the first quarter of 2007, the Company performed its annual impairment testing of its goodwill and intangible assets, which resulted in total impairment charges of $2,154,000. The first quarter 2007 goodwill impairment charges of $988,000 were primarily related to a French polymers business and an Asian construction business in the Engineered Products International segment and resulted from lower estimated future cash flows than previously expected. Also in the first quarter of 2007, intangible asset impairments of $1,166,000 were recorded to reduce to the estimated fair value the carrying value of trademarks and customer-related intangible assets primarily related to a French polymers business in the Engineered Products International segment and a U.S. contamination control business in the Engineered Products North America segment.

In the first quarter of 2006, the Company recorded goodwill impairment charges of $9,200,000 which were primarily related to a U.S. construction joist business in the Engineered Products North America segment, a U.S. thermal transfer ribbon business in the Specialty Systems North America segment, and an Asian construction business in the Engineered Products International segment, and resulted from lower estimated future cash flows than previously expected. Also in the first quarter of 2006, intangible asset impairments of $2,985,000 were recorded to reduce to the estimated fair value the carrying value of trademarks, patents and customer-related intangible assets primarily related to a U.S. welding components business in the Specialty Systems North America segment and a U.S. contamination control business in the Engineered Products North America segment.

(4) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS

Pension and other postretirement benefit costs for the periods ended September 30, 2007 and 2006 were as follows:

(In thousands)

	Three Months Ended September 30				**Nine Months Ended September 30**			
	Pension		**Other Postretirement Benefits**		**Pension**		**Other Postretirement Benefits**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Components of net periodic benefit cost:								
Service cost	$28,833	$27,040	$3,697	$4,187	$86,198	$80,444	$11,261	$12,560
Interest cost	26,737	24,388	8,008	8,225	79,699	72,549	24,124	24,674
Expected return on plan assets	(39,113)	(34,609)	(2,898)	(1,995)	(116,688)	(103,154)	(8,695)	(5,987)
Amortization of actuarial loss	5,041	6,377	489	1,292	15,024	18,970	1,500	23,573
Amortization of prior service cost (income)	(605)	(565)	1,565	1,391	(1,779)	(1,697)	4,695	4,174
Amortization of net transition amount	3	16			13	48		
Curtailment/settlement loss (gain)					6,000		(1,562)	
Net periodic benefit cost	$20,896	$22,647	$10,861	$13,100	$68,467	$67,160	$31,323	$58,994

The Company expects to contribute $82,400,000 to its pension plans in 2007. As of September 30, 2007, contributions of $71,600,000 have been made.

(5) SHORT-TERM DEBT

In June 2006, the Company entered into a $600,000,000 Line of Credit Agreement with a termination date of June 15, 2007. This line of credit was replaced on June 15, 2007, by a $1.0 billion Line of Credit Agreement with a termination date of June 13, 2008. No amounts were outstanding under this facility at September 30, 2007.

(6) LONG-TERM DEBT

In June 2006, the Company entered into a $350,000,000 revolving credit facility (RCF) with a termination date of June 16, 2011. This RCF was replaced on June 15, 2007 by a $500,000,000 RCF with a termination date of June 15, 2012. No amounts were outstanding under this facility at September 30, 2007.

The Company had outstanding commercial paper of $616,139,883 at September 30, 2007 and $200,339,882 at December 31, 2006. All commercial paper outstanding at September 30, 2007 has been reclassified as long-term, since it was subsequently refinanced with long-term debt as discussed in Note 10. The commercial paper balance at December 31, 2006 was classified as short-term debt.

(7) INCOME TAXES

On January 1, 2007, the Company adopted Financial Accounting Standard Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in tax returns, and provides guidance on derecognition, classification, and interest and penalties, related to uncertain tax positions. As a result of implementation of FIN 48, the Company did not recognize any change in its liability for unrecognized tax benefits.

As of the adoption date, the Company had $688,000,000 of unrecognized tax benefits. If these unrecognized tax benefits were recognized, approximately $593,000,000 would impact the Company's effective tax rate. There has been no significant change to the amount of unrecognized tax benefits during the nine months ended September 30, 2007. As of September 30, 2007, the Company does not expect any significant changes to the estimated amount of unrecognized tax benefits for any significant individual tax positions in the next twelve months.

The Company files numerous consolidated and separate income tax returns in the United States Federal jurisdiction and in many state and foreign jurisdictions. The following table summarizes the open tax years for the Company s major jurisdictions:

Jurisdiction	**Open Tax Years**
United States Federal	2001-2006
United Kingdom	2000-2006
Germany	2001-2006
France	2000-2006
Australia	2002-2006

The Company recognizes interest and penalties related to income tax matters in income tax expense. There were no significant accruals for interest and penalties recorded as of January 1, 2007.

(8) LEVERAGED LEASES

On January 1, 2007, the Company adopted FASB Staff Position No. FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction (FSP 13-2). FSP 13-2 addresses how a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease. Upon adoption of FSP 13-2, the Company recorded an after-tax charge to retained earnings of $22,600,000, resulting from changes in the timing of expected cash flows related to income tax benefits of the Company's leveraged lease transactions.

(9) STOCKHOLDERS' EQUITY

Common Stock, Additional Paid-In-Capital, Income Reinvested in the Business and Common Stock Held in Treasury activity during the first nine months of 2007 are shown below:

(In thousands)	**Common Stock**	**Additional Paid-In-Capital**	**Income Reinvested in the Business**	**Common Stock Held in Treasury**
Balance, December 31, 2006	$6,309	$1,378,587	$10,406,511	$(3,220,538)
During 2007				
Retirement of treasury shares	(721)	(1,378,587)	(1,841,230)	3,220,538
Shares issued for stock options and grants	32	99,933		
Shares surrendered on exercise of stock options		(108)		
Stock compensation expense		22,775		
Tax benefits related to stock options		20,320		
Repurchases of common stock				(958,911)
Net income			1,399,129	
Cash dividends declared			(385,093)	
Cumulative effect of adopting FSP 13-2			(22,559)	
Balance, September 30, 2007	$5,620	$142,920	$9,556,758	$(958,911)

On August 21, 2007, the Company s Board of Directors authorized a new stock repurchase program, which provides for the buyback of up to $3.0 billion of the Company s common stock over an open-ended period of time. As of September 30, 2007, no shares have been repurchased under this program.

On February 9, 2007, the Company retired 72,151,184 shares of Common Stock Held in Treasury.

On August 4, 2006, the Company's Board of Directors authorized a stock repurchase program which provided for the buyback of up to 35,000,000 shares. In the first nine months of 2007, the Company repurchased 18,025,647 shares of its common stock under this program at an average price of $53.20 per share.

(10) SUBSEQUENT EVENTS

On October 1, 2007, the Company, through its wholly-owned subsidiary ITW Finance Europe S.A., issued 750,000,000 of 5.25% notes due October 1, 2014, at 99.874% of face value. The effective interest rate of the notes is 5.27%. The net proceeds of the offering will be used to refinance commercial paper outstanding and for general corporate purposes.

(11) SEGMENT INFORMATION

See Management s Discussion and Analysis for information regarding operating revenues and operating income for the Company s segments.

Item 2 - Management s Discussion and Analysis

CONSOLIDATED RESULTS OF OPERATIONS

The Company s consolidated results of operations for the third quarter and year-to-date periods of 2007 and 2006 were as follows:

(Dollars in thousands)

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2007	**2006**	**2007**	**2006**
Operating revenues	$4,093,803	$3,538,014	$12,012,533	$10,414,520
Operating income	696,295	626,866	1,963,620	1,826,598
Margin %	17.0 %	17.7 %	16.3 %	17.5 %

In the third quarter and year-to-date periods of 2007, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30			**Nine Months Ended September 30**		
	% Increase (Decrease)		**% Point Increase (Decrease)**	**% Increase (Decrease)**		**% Point Increase (Decrease)**
	Operating Revenues	**Operating Income**	**Operating Margins**	**Operating Revenues**	**Operating Income**	**Operating Margins**
Base manufacturing business:						
Revenue change/Operating leverage	2.2 %	5.1 %	0.5 %	1.9 %	4.4 %	0.4 %
Changes in variable margins and overhead costs		0.6	0.1		(0.5)	(0.1)
Total	2.2	5.7	0.6	1.9	3.9	0.3
Acquisitions	11.7	2.7	(1.5)	11.5	1.5	(1.6)
Divestitures	(1.4)	(1.1)		(1.1)	(0.7)	
Restructuring costs		0.4	0.1		(0.8)	(0.1)
Impairment of goodwill and intangibles					0.6	0.1
Translation	3.8	3.4		3.4	3.0	
Intercompany/Other	(0.6)		0.1	(0.4)		0.1
Total	15.7 %	11.1 %	(0.7)%	15.3 %	7.5 %	(1.2)%

In the third quarter and year-to-date period of 2007 revenues increased 15.7% and 15.3%, respectively, over 2006 primarily due to revenues from acquisitions and favorable currency translation. Base business revenues increased 2.2% and 1.9% in the third quarter and year-to-date periods, respectively, versus the 2006 period primarily related to a 5.1% and 7.2% increase in international base business revenues for the third quarter and year-to-date periods, respectively. These increases were offset for the year-to-date period by a 1.6% decline in North American base revenues. Base revenues for North America increased 0.2% for third quarter. European economic strength and market demand continued strong in 2007. North American base revenues remained weak due to sluggish industrial production and slow demand in many of the Company s North American end markets, primarily construction and automotive.

Operating income in the third quarter and year-to-date periods improved over 2006 primarily due to leverage from the growth in base business revenues, favorable currency translation versus the prior year and the effect of acquisitions, partially offset by the effect of divestitures. In addition, for the year-to-date period, increased restructuring expenses decreased income. Operating margins were negatively affected by lower margins of acquired businesses, including amortization expense.

ENGINEERED PRODUCTS - NORTH AMERICA

Businesses in this segment are located in North America and manufacture a variety of short lead-time plastic and metal components and fasteners, as well as specialty products for a diverse customer base. These commercially oriented, value-added products become part of the customers products and typically are manufactured and delivered in a time period less than 30 days.

In the plastic and metal components and fasteners category, products include:

- metal fasteners and fastening tools for the commercial, residential and renovation construction industries;
- metal plate connecting components, machines and software for the commercial and residential construction industries;
- laminate products for the commercial, residential and renovation construction industries and furniture markets;
- metal fasteners for automotive, appliance and general industrial applications;
- metal components for automotive, appliance and general industrial applications;
- plastic components for automotive, appliance, furniture, electronics and general industrial applications; and
- plastic fasteners for automotive, appliance, electronics and general industrial applications.

In the specialty products category, products include:

- reclosable packaging for consumer food and storage applications;
- hand wipes and cleaners for use in industrial manufacturing locations;
- chemical fluids which clean or add lubrication to machines and automobiles;
- adhesives for industrial, construction and consumer purposes;
- epoxy and resin-based coating products for industrial applications;
- components for industrial machines;
- automotive aftermarket maintenance and appearance products; and
- swabs, wipes and mats for clean room usage in the electronics and pharmaceutical industries.

This segment primarily serves the construction, automotive and consumer durables markets.

The results of operations for the Engineered Products North America segment for the third quarter and year-to-date periods of 2007 and 2006 were as follows:

(Dollars in thousands)

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2007	**2006**	**2007**	**2006**
Operating revenues	$1,041,240	$1,017,265	$3,156,813	$3,139,276
Operating income	173,131	178,936	520,898	561,937
Margin %	16.6 %	17.6 %	16.5 %	17.9 %

In the third quarter and year-to-date periods of 2007, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30			**Nine Months Ended September 30**		
	% Increase (Decrease)		**% Point Increase (Decrease)**	**% Increase (Decrease)**		**% Point Increase (Decrease)**
	Operating Revenues	**Operating Income**	**Operating Margins**	**Operating Revenues**	**Operating Income**	**Operating Margins**
Base manufacturing business:						
Revenue change/Operating leverage	(1.7)%	(4.0)%	(0.4)%	(3.8)%	(8.7)%	(0.9)%
Changes in variable margins and overhead costs		(1.0)	(0.2)		0.6	0.1
Total	(1.7)	(5.0)	(0.6)	(3.8)	(8.1)	(0.8)
Acquisitions	4.5	2.2	(0.4)	4.9	1.4	(0.6)
Divestitures	(0.8)	(0.8)		(0.6)	(0.5)	
Restructuring costs					(1.2)	(0.2)
Impairment of goodwill and intangibles					0.9	0.2
Translation/Other	0.4	0.4		0.1	0.2	
Total	2.4 %	(3.2)%	(1.0)%	0.6 %	(7.3)%	(1.4)%

Revenues increased modestly in both the third quarter and year-to-date periods of 2007 versus 2006 primarily due to revenues from acquisitions, partially offset by a decline in base business revenues and the effect of divestitures. Acquisition revenue was primarily related to the acquisition of an electronic switches business, a specialty wipes business, and a die cut adhesives business. In the fourth quarter of 2006, a roofing components business was divested. In the third quarter and year-to-date periods, construction base revenues declined 4.6% and 6.8%, respectively, primarily due to declines in the residential construction market. Automotive base revenues increased 2.4% in the third quarter and declined 3.0% in the year-to-date period primarily due to a modest increase in automotive production at the Detroit 3 automotive manufacturers in the third quarter and a year-to-date decline in Detroit 3 automotive builds. Base revenues from the other industrial-based businesses in this segment declined 0.7% and 0.9% in the third quarter and year-to-date periods, respectively, mainly due to decreases in the strength films, industrial plastics and metals, and machined components and contamination control businesses, partially offset by revenue increases in the polymers and reclosable packaging businesses in both periods.

Operating income decreased in the third quarter of 2007 and year-to-date period primarily due to the decline in base business revenues described above. Variable margins increased 50 and 40 basis points for the third quarter and year-to-date periods, respectively, mainly due to expense management in the automotive, construction, and polymers businesses and the benefits of 2006 restructuring projects. Base overhead expenses increased 70 basis points in the third quarter due to increases in the laminate and construction business. Year-to-date overhead expenses increased 20 basis points as the expenses related to new product launches in the laminate businesses were partially offset by the positive 2007 effect of a first quarter 2006 charge of $9.8 million related to retiree healthcare and life insurance liabilities.

ENGINEERED PRODUCTS - INTERNATIONAL

Businesses in this segment are located outside North America and manufacture a variety of short lead-time plastic and metal components and fasteners, as well as specialty products for a diverse customer base. These commercially oriented, value-added products become part of the customers products and typically are manufactured and delivered in a time period less than 30 days.

In the plastic and metal components and fasteners category, products include:

- metal fasteners and fastening tools for the commercial, residential and renovation construction industries;
- laminate products for the commercial, residential and renovation construction industries and furniture markets;
- metal plate connecting components and software for the commercial and residential construction markets;
- metal fasteners for automotive, appliance and general industrial applications;
- metal components for automotive, appliance and general industrial applications;
- plastic components for automotive, appliance, electronics and general industrial applications; and
- plastic fasteners for automotive, appliance, electronics and general industrial applications.

In the specialty products category, products include:

- reclosable packaging for consumer food applications;
- electronic component packaging trays used for the storage, shipment and manufacturing insertion of electronic components and microchips;
- adhesives for industrial, construction and consumer purposes;
- chemical fluids which clean or add lubrication to machines and automobiles;
- epoxy and resin-based coating products for industrial applications;
- automotive aftermarket maintenance and appearance products; and
- swabs, wipes and mats for clean room usage in the electronics and pharmaceutical industries.

This segment primarily serves the construction, automotive and consumer durables markets.

The results of operations for the Engineered Products International segment for the third quarter and year-to-date periods of 2007 and 2006 were as follows:

(Dollars in thousands)

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2007	**2006**	**2007**	**2006**
Operating revenues	$954,571	$720,358	$2,764,400	$2,081,246
Operating income	140,595	109,588	386,174	295,886
Margin %	14.7 %	15.2 %	14.0 %	14.2 %

In the third quarter and year-to-date periods of 2007, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30	**Nine Months Ended September 30**

	% Increase (Decrease) Operating Revenues	% Increase (Decrease) Operating Income	% Point Increase (Decrease) Operating Margins	% Increase (Decrease) Operating Revenues	% Increase (Decrease) Operating Income	% Point Increase (Decrease) Operating Margins
Base manufacturing business:						
Revenue change/Operating leverage	6.7 %	17.2 %	1.5 %	7.3 %	20.4 %	1.7 %
Changes in variable margins and overhead costs		(2.4)	(0.3)		(6.2)	(0.8)
Total	6.7	14.8	1.2	7.3	14.2	0.9
Acquisitions	16.9	4.2	(1.7)	16.7	6.3	(1.3)
Divestitures	(0.2)	(0.2)		(0.3)	0.1	0.1
Restructuring costs		(0.9)	(0.1)		(0.4)	(0.1)
Impairment of goodwill and intangibles					0.1	
Translation/Other	9.1	10.4	0.1	9.1	10.2	0.2
Total	32.5 %	28.3 %	(0.5)%	32.8 %	30.5 %	(0.2)%

Revenues increased in the third quarter and year-to-date periods of 2007 due to revenues from acquisitions, the favorable effect of currency translation and growth in base business revenues. Base business construction revenues increased 8.1% and 10.0% in the third quarter and year-to date periods, respectively, due to strong demand across the European and Asia-Pacific markets. Automotive base business revenues increased 8.5% and 4.9% in the third quarter and year-to-date periods, respectively, due to a 7.5% and 5.2% increase in European auto production, respectively. Base revenues from the other businesses in this segment increased 3.1% and 4.6% in the third quarter and year-to-date periods, respectively, as they benefited from strong demand in the broad array of industrial and commercial end markets they serve. Acquisition revenue was primarily related to the acquisitions of a European laminate business, one Korean and one European automotive business, two European performance polymers businesses, and a European construction business.

Operating income increased in the third quarter and year-to-date periods of 2007 versus 2006 primarily due to the positive leverage effect from the increase in base revenues described above, the favorable effect of currency translation and income from acquisitions, partially offset by higher restructuring expenses. Variable margins increased 20 basis points in the third quarter mainly due to price recovery of higher raw material costs. Variable margins declined 50 basis points for the year-to-date period mainly due to higher raw material costs in the first half of 2007. Operating margins were negatively affected by the lower margins of acquired businesses.

SPECIALTY SYSTEMS - NORTH AMERICA

Businesses in this segment are located in North America and design and manufacture longer lead-time machinery and related consumables, as well as specialty equipment for a diverse customer base. These commercially oriented, value-added products become part of the customers processes and typically are manufactured and delivered in a time period of more than 30 days.

In the machinery and related consumables category, products include:

- industrial packaging equipment and plastic and steel strapping for the bundling and shipment of a variety of products for customers in numerous end markets;
- welding equipment, metal consumables and related accessories for a variety of end market users;
- equipment and plastic consumables that multi-pack cans and bottles for the food and beverage industry;
- plastic stretch film and related packaging equipment for various industrial purposes;

paper and plastic products used to protect shipments of goods in transit;
marking tools and inks for various end users;
foil and film and related equipment used to decorate a variety of consumer products; and
solder materials, services and equipment for the electronic and microelectronic assembly industry.

In the specialty equipment and systems category, products include:

commercial food equipment such as dishwashers, refrigerators, cooking equipment and food machines for use by restaurants, institutions and supermarkets and related service;
paint spray equipment for a variety of general industrial applications;
materials and structural testing machinery and software;
static control equipment for electronics and industrial applications;
airport ground power generators for commercial and military applications; and
supply chain management software for the industrial, aerospace and health care markets.

This segment primarily serves the general industrial, food institutional and service, maintenance, repair and operations (MRO)/metals, and food and beverage markets.

The results of operations for the Specialty Systems North America segment for the third quarter and year-to-date periods of 2007 and 2006 were as follows:

(Dollars in thousands)

	Three Months Ended September 30				**Nine Months Ended September 30**			
	2007		**2006**		**2007**		**2006**	
Operating revenues	$1,271,468		$1,150,193		$3,747,372		$3,408,736	
Operating income	246,314		229,591		708,697		683,814	
Margin %	19.4	%	20.0	%	18.9	%	20.1	%

In the third quarter and year-to-date periods of 2007, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30						**Nine Months Ended September 30**					
	% Increase (Decrease)				**% Point Increase (Decrease)**		**% Increase (Decrease)**				**% Point Increase (Decrease)**	
	Operating Revenues		**Operating Income**		**Operating Margins**		**Operating Revenues**		**Operating Income**		**Operating Margins**	
Base manufacturing business:												
Revenue change/Operating leverage	1.9	%	3.9	%	0.4	%	0.5	%	1.0	%	0.1	%
Changes in variable margins and overhead costs			3.4		0.7				2.5		0.5	
Total	1.9		7.3		1.1		0.5		3.5		0.6	
Acquisitions	9.8		0.2		(1.8	)	10.5		(0.3	)	(2.0	)
Divestitures	(1.5	)	(0.5	)	0.2		(1.1	)	(0.5	)	0.1	

Restructuring costs					0.1	
Impairment of goodwill and intangibles					0.6	0.1
Translation/Other	0.3	0.3	(0.1)		0.2	
Total	10.5%	7.3%	(0.6)%	9.9%	3.6%	(1.2)%

Revenues increased in the third quarter and year-to-date periods of 2007 over 2006 primarily due to revenues from acquisitions. The acquired revenues were primarily related to the acquisition of two businesses supplying the electronic and microelectronic assembly industry, a supply chain management software business, two test and measurement businesses and two decorating businesses. A quality measurement business was divested during the second quarter of 2007. Base business revenues increased modestly in the third quarter and year-to-date periods of 2007 primarily due to slower growth in U.S. industrial production. Food equipment base revenues increased 8.6% in the third quarter and 6.2% year-to-date due to growth in the restaurant, service and institutional sectors. Welding base revenues increased 6.6% and 5.6% in the third quarter and year-to-date periods, respectively, due to higher demand in energy-related end markets. Total packaging base revenues declined 5.5% and 5.6% in the third quarter and year-to-date periods, respectively, primarily due to weakness in the metals and construction-related industrial packaging categories in North America. Base business revenues from the other businesses in this segment, including the decorating and finishing businesses, increased 0.7% for the third quarter, while decreasing 2.5% for the year-to-date period.

Operating income increased in the third quarter and year-to-date periods of 2007 versus 2006 primarily due to the leverage effect of the increase in base revenues, improved variable margins and decreased overhead costs, including the favorable first quarter 2007 impact of a $9.8 million charge related to retiree health care and life insurance liabilities incurred in the first quarter of 2006, offset by the effect of divestitures. Year-to-date operating income was also favorably affected by lower impairment charges. Acquisitions had minimal impact on income in the third quarter and a negative effect year-to-date.

SPECIALTY SYSTEMS - INTERNATIONAL

Businesses in this segment are located outside North America and design and manufacture longer lead-time machinery and related consumables, as well as specialty equipment for a diverse customer base. These commercially oriented, value-added products become part of the customers processes and typically are manufactured and delivered in a time period of more than 30 days.

In the machinery and related consumables category, products include:

- industrial packaging equipment and plastic and steel strapping for the bundling and shipment of a variety of products for customers in numerous end markets;