

ILLINOIS TOOL WORKS INC
Form 10-Q
October 28, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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
(State or other jurisdiction of incorporation or
organization)

36-1258310
(I.R.S. Employer Identification Number)

3600 West Lake Avenue, Glenview, IL
(Address of principal executive offices)

60026-1215
(Zip Code)

(Registrant's telephone number, including area code) 847-724-7500

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Yes

No

The number of shares of registrant's common stock, \$0.01 par value, outstanding at September 30, 2011: 483,193,299.

Part I – Financial Information

Item 1 – Financial Statements

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
STATEMENT OF INCOME (UNAUDITED)

| (In thousands except for per share amounts) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------|-------------------|---------------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Operating Revenues | \$ 4,580,516 | \$ 3,941,124 | \$ 13,467,275 | \$ 11,501,944 |
| Cost of revenues | 2,961,497 | 2,548,451 | 8,719,520 | 7,390,536 |
| Selling, administrative, and research and development expenses | 836,433 | 720,776 | 2,477,578 | 2,184,267 |
| Amortization of intangible assets | 68,302 | 51,166 | 186,251 | 154,700 |
| Impairment of goodwill and other intangible assets | — | 1,006 | — | 1,006 |
| Operating Income | 714,284 | 619,725 | 2,083,926 | 1,771,435 |
| Interest expense | (48,583) | (43,490) | (137,961) | (131,054) |
| Other income (expense) | 24,682 | 961 | 45,934 | 7,046 |
| Income from Continuing Operations | | | | |
| Before Income Taxes | 690,383 | 577,196 | 1,991,899 | 1,647,427 |
| Income Taxes | 200,250 | 174,142 | 412,000 | 523,285 |
| Income from Continuing Operations | 490,133 | 403,054 | 1,579,899 | 1,124,142 |
| Income from Discontinued Operations | 17,484 | 18,974 | 49,288 | 43,147 |
| Net Income | \$ 507,617 | \$ 422,028 | \$ 1,629,187 | \$ 1,167,289 |
| Income Per Share from Continuing Operations: | | | | |
| Basic | \$1.01 | \$0.80 | \$3.20 | \$2.24 |
| Diluted | \$1.00 | \$0.80 | \$3.17 | \$2.23 |
| Income Per Share from Discontinued Operations: | | | | |
| Basic | \$0.04 | \$0.04 | \$0.10 | \$0.09 |
| Diluted | \$0.04 | \$0.04 | \$0.10 | \$0.09 |
| Net Income Per Share: | | | | |
| Basic | \$1.04 | \$0.84 | \$3.30 | \$2.32 |
| Diluted | \$1.04 | \$0.84 | \$3.27 | \$2.31 |
| Cash Dividends Per Share: | | | | |
| Paid | \$0.34 | \$0.31 | \$1.02 | \$0.93 |
| Declared | \$0.36 | \$0.34 | \$1.04 | \$0.96 |

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Shares of Common Stock
Outstanding
During the Period:

| | | | | |
|---------------------------|---------|---------|---------|---------|
| Average | 486,253 | 500,751 | 494,159 | 502,141 |
| Average assuming dilution | 488,776 | 503,149 | 497,904 | 504,690 |

The Notes to Financial Statements are an integral part of these statements.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
STATEMENT OF FINANCIAL POSITION (UNAUDITED)

| (In thousands) | September 30, | |
|---|---------------|-------------------|
| | 2011 | December 31, 2010 |
| ASSETS | | |
| Current Assets: | | |
| Cash and equivalents | \$ 1,318,885 | \$ 1,186,367 |
| Trade receivables | 2,985,354 | 2,581,592 |
| Inventories | 1,794,327 | 1,634,856 |
| Deferred income taxes | 326,228 | 301,486 |
| Prepaid expenses and other current assets | 498,110 | 266,187 |
| Assets held for sale | 411,515 | — |
| Total current assets | 7,334,419 | 5,970,488 |
| Plant and Equipment: | | |
| Land | 250,901 | 264,875 |
| Buildings and improvements | 1,568,988 | 1,574,593 |
| Machinery and equipment | 3,975,602 | 3,930,502 |
| Equipment leased to others | 187,425 | 187,284 |
| Construction in progress | 113,975 | 104,440 |
| Gross plant and equipment | 6,096,891 | 6,061,694 |
| Accumulated depreciation | (4,058,957) | (3,995,538) |
| Net plant and equipment | 2,037,934 | 2,066,156 |
| Investments | 424,441 | 440,760 |
| Goodwill | 5,123,433 | 4,971,818 |
| Intangible Assets | 2,308,264 | 1,731,016 |
| Deferred Income Taxes | 519,103 | 615,326 |
| Other Assets | 615,671 | 616,747 |
| | \$ 18,363,265 | \$ 16,412,311 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Short-term debt | \$ 1,040,806 | \$ 326,236 |
| Accounts payable | 770,386 | 749,489 |
| Accrued expenses | 1,483,243 | 1,391,396 |
| Cash dividends payable | 173,950 | 169,233 |
| Income taxes payable | 65,736 | 386,498 |
| Deferred income taxes | 4,686 | — |
| Liabilities held for sale | 97,091 | — |
| Total current liabilities | 3,635,898 | 3,022,852 |
| Noncurrent Liabilities: | | |
| Long-term debt | 3,522,123 | 2,542,087 |
| Deferred income taxes | 122,566 | 194,590 |
| Other liabilities | 1,230,669 | 1,080,783 |
| Total noncurrent liabilities | 4,875,358 | 3,817,460 |
| Stockholders' Equity: | | |
| Common stock | 5,421 | 5,385 |

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| | | |
|--|---------------|---------------|
| Additional paid-in-capital | 656,710 | 460,806 |
| Income reinvested in the business | 11,526,086 | 10,407,946 |
| Common stock held in treasury | (2,691,978) | (1,740,682) |
| Accumulated other comprehensive income | 341,207 | 427,155 |
| Noncontrolling interest | 14,563 | 11,389 |
| Total stockholders' equity | 9,852,009 | 9,571,999 |
| | \$ 18,363,265 | \$ 16,412,311 |

The Notes to Financial Statements are an integral part of these statements.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
STATEMENT OF CASH FLOWS (UNAUDITED)

| (In thousands) | Nine Months Ended September 30 | |
|---|-----------------------------------|--------------|
| | 2011 | 2010 |
| Cash Provided by (Used for) Operating Activities: | | |
| Net income | \$ 1,629,187 | \$ 1,167,289 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 253,014 | 249,461 |
| Amortization and impairment of goodwill and other intangible assets | 188,427 | 159,760 |
| Change in deferred income taxes | (44,459) | (18,071) |
| Provision for uncollectible accounts | 5,280 | 11,430 |
| Gain on sale of plant and equipment | (3,148) | (1,283) |
| Income from investments | (17,574) | (13,406) |
| Gain on sale of operations and affiliates | (2,152) | (17,763) |
| Stock compensation expense | 42,351 | 42,319 |
| Other non-cash items, net | (4,869) | (967) |
| Change in assets and liabilities: | | |
| (Increase) decrease in-- | | |
| Trade receivables | (467,391) | (359,013) |
| Inventories | (128,688) | (213,347) |
| Prepaid expenses and other assets | (11,085) | (52,962) |
| Increase (decrease) in-- | | |
| Accounts payable | 19,566 | 75,031 |
| Accrued expenses and other liabilities | 98,324 | 155,874 |
| Income taxes | (327,479) | (52,231) |
| Other, net | 15,041 | 18 |
| Net cash provided by operating activities | 1,244,345 | 1,132,139 |
| Cash Provided by (Used for) Investing Activities: | | |
| Acquisition of businesses (excluding cash and equivalents) | (1,198,694) | (301,485) |
| Additions to plant and equipment | (258,914) | (199,615) |
| Purchases of investments | (1,959) | (1,561) |
| Proceeds from investments | 23,417 | 17,550 |
| Proceeds from sale of plant and equipment | 13,623 | 13,294 |
| Proceeds from sale of operations and affiliates | 1,782 | 62,154 |
| Other, net | 11,642 | 22,726 |
| Net cash used for investing activities | (1,409,103) | (386,937) |
| Cash Provided by (Used for) Financing Activities: | | |
| Cash dividends paid | (506,331) | (467,583) |
| Issuance of common stock | 140,283 | 58,661 |
| Repurchases of common stock | (950,000) | (350,000) |
| Net proceeds of debt with original maturities of three months or less | 709,150 | 399,043 |
| Proceeds from debt with original maturities of more than three months | 989,223 | 2,919 |
| Repayments of debt with original maturities of more than three months | (7,287) | (62,159) |
| Excess tax benefits from share-based compensation | 7,545 | 3,465 |
| Net cash provided by (used for) financing activities | 382,583 | (415,654) |
| Effect of Exchange Rate Changes on Cash and Equivalents | (85,307) | 49,625 |
| Cash and Equivalents: | | |

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| | | |
|--|--------------|--------------|
| Increase during the period | 132,518 | 379,173 |
| Beginning of period | 1,186,367 | 1,346,166 |
| End of period | \$ 1,318,885 | \$ 1,725,339 |
| Cash Paid During the Period for Interest | \$ 67,948 | \$ 64,576 |
| Cash Paid During the Period for Income Taxes | \$ 775,392 | \$ 609,260 |
| Liabilities Assumed from Acquisitions | \$ 178,103 | \$ 120,162 |

The Notes to Financial Statements are an integral part of these statements.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

(1) FINANCIAL STATEMENTS

The unaudited financial statements included herein have been prepared by Illinois Tool Works Inc. and Subsidiaries (the “Company”). 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 2010 Annual Report on Form 10-K. Certain reclassifications of prior year data have been made to conform with current year reporting.

Prior to 2011, the Company’s international operations outside of North America had a fiscal reporting period that began on December 1 and ended on November 30. Effective January 1, 2011, the Company eliminated the one month lag for the reporting of its international operations outside of North America. As a result, the Company is now reporting both North American and international results on a calendar year basis. The Company determined that the elimination of the one month reporting lag was preferable because the same period-end reporting date improves overall financial reporting as the impact of current events, economic conditions and global trends are consistently reflected in the financial statements of the North American and international business units.

The Company has applied this change in accounting principle retrospectively to all prior financial statement periods presented. The elimination of the one month reporting lag for international operations outside of North America resulted in an increase to operating revenues from continuing operations of \$35,141,000, to income from continuing operations of \$2,644,000 or \$0.01 per diluted share, and to net income of \$2,752,000 or \$0.01 per diluted share, for the three months ended September 30, 2010; an increase to operating revenues from continuing operations of \$128,504,000, to income from continuing operations of \$29,605,000 or \$0.06 per diluted share, and to net income of \$32,890,000 or \$0.06 per diluted share, for the nine months ended September 30, 2010; and an increase to income reinvested in the business of \$8,722,000 as of December 31, 2010.

(2) COMPREHENSIVE INCOME

The components of comprehensive income in the periods presented were:

| (In thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-------------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$507,617 | \$422,028 | \$1,629,187 | \$1,167,289 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments | (537,834) | 473,687 | (111,061) | 105,166 |
| Pension and other postretirement benefit adjustments, net of tax | 8,160 | 5,957 | 25,113 | 17,945 |
| Comprehensive income (loss) | \$(22,057) | \$901,672 | \$1,543,239 | \$1,290,400 |

(3) DISCONTINUED OPERATIONS

In April 2011, the Company entered into a definitive agreement to sell its finishing group of businesses to Graco Inc. in a \$650,000,000 cash transaction. The sale is not expected to be completed prior to the end of the fourth quarter of 2011, to accommodate regulatory reviews. The finishing businesses, which were included within the All Other segment, had revenues of approximately \$305,000,000 for the year ended December 31, 2010. Additionally, in the

second quarter of 2011, the Company's Board of Directors approved plans to divest a consumer packaging business in the All Other segment and an electronics components business in the Power Systems & Electronics segment, which had combined 2010 revenues of approximately \$100,000,000. The Company expects to dispose of both businesses within one year. These businesses have been classified as held for sale since the second quarter of 2011.

The held for sale finishing, consumer packaging, and electronics components businesses discussed above, along with a flooring business in the Decorative Surfaces segment that was exited in early 2011 and a security printing business in the All Other segment that was sold in the third quarter of 2010, are reported as discontinued operations in the statement of income. All related prior period income statement information has been restated to conform to the current year reporting of these businesses.

Results of the discontinued operations for the third quarter and year-to-date periods of 2011 and 2010 were as follows:

| (In thousands) | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|-----------|-------------------|-----------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Operating revenues | \$129,192 | \$116,188 | \$366,817 | \$334,370 |
| Income before income taxes | \$27,663 | \$39,833 | \$73,824 | \$73,861 |
| Income taxes | (10,179) | (20,859) | (24,536) | (30,714) |
| Income from discontinued operations | \$17,484 | \$18,974 | \$49,288 | \$43,147 |

Income before income taxes for the three and nine months ended September 30, 2010 includes a pre-tax gain of \$19,752,000, or \$4,704,326 after-tax, on the sale of the security printing business in the third quarter of 2010.

As of September 30, 2011, the assets and liabilities of the held for sale finishing, consumer packaging, and electronics components businesses discussed above were included in assets and liabilities held for sale in the statement of financial position, as follows:

| (In thousands) | September 30, 2011 |
|---------------------------------|-----------------------|
| Trade receivables | \$ 81,838 |
| Inventories | 56,508 |
| Net plant and equipment | 48,434 |
| Goodwill and intangible assets | 210,482 |
| Other | 14,253 |
| Total assets held for sale | \$ 411,515 |
| Accounts payable | \$ 23,400 |
| Accrued expenses | 46,865 |
| Other | 26,826 |
| Total liabilities held for sale | \$ 97,091 |

(4) INCOME TAXES

The Company has been litigating its dispute with the Australian Tax Office over the tax treatment of an intercompany financing transaction between the U.S. and Australia. The case was heard before the Federal Court of Australia, Victoria, in September 2010. The proceedings resulted from the Company's appeal of a decision by the Australian Tax Commissioner to disallow income tax deductions for the income tax years 2002 through 2005 and the assessment of withholding taxes for income tax year 2003. The Company also contested the Commissioner's similar determination for income tax years 2006 and 2007; however, the parties agreed to follow the Court's decision made on the earlier years. On February 4, 2011, the Federal Court of Australia, Victoria, decided in the Company's favor with respect to a significant portion of the income tax deductions. The Court issued the final orders on February 18, 2011. Based on this decision, the Company decreased its unrecognized tax benefits related to this matter by approximately \$197,000,000 and recorded a favorable discrete non-cash tax benefit to reduce tax expense by \$165,927,000 in the first quarter of 2011. The Australian Tax Office has appealed the timing of certain of the deductions, the outcome of which is not expected to be material.

During the first quarter of 2011, the Company resolved an issue with the Internal Revenue Service in the United States related to a deduction for foreign exchange losses on an intercompany loan that resulted in a decrease in unrecognized

tax benefits of approximately \$179,000,000.

In March 2010, the Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act were signed into law. As a result, future tax deductions for retiree prescription drug coverage will be reduced by the amount of subsidies received starting in 2013. In the first quarter of 2010, the Company recorded a discrete tax charge of \$21,881,000 for the impact of the health care reform legislation.

The components of the effective tax rate for the nine month periods ended September 30, 2011 and 2010 were as follows:

| | September 30, 2011 | September 30, 2010 |
|-------------------------------------|-----------------------|-----------------------|
| Estimated annual effective tax rate | 29.0% | 30.4% |
| Discrete tax adjustments | (8.3) | 1.4 |
| Effective tax rate | 20.7% | 31.8% |

The Company and its subsidiaries file tax returns in the U.S. and various state, local and foreign jurisdictions. These tax returns are routinely audited by the tax authorities in these jurisdictions and a number of these audits are currently ongoing.

(5) INVENTORIES

Inventories at September 30, 2011 and December 31, 2010 were as follows:

(In thousands)

| | September 30, 2011 | December 31, 2010 |
|-----------------|--------------------|-------------------|
| Raw material | \$ 613,546 | \$ 552,996 |
| Work-in-process | 176,139 | 165,298 |
| Finished goods | 1,004,642 | 916,562 |
| | \$ 1,794,327 | \$ 1,634,856 |

(6) 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 and intangible assets that have indefinite lives. The Company performs an annual impairment assessment of goodwill and intangible assets with indefinite lives based on the estimated fair value of the related reporting unit or intangible asset.

When performing its annual impairment assessment, the Company evaluates the goodwill assigned to each of its 52 reporting units for potential impairment by comparing the estimated fair value of the relevant reporting unit to the carrying value. The Company uses various valuation techniques to determine the fair value of its reporting units, including discounting estimated future cash flows based on a detailed cash flow forecast prepared by the relevant reporting unit, market multiples from similar transactions and quoted market prices of relevant public companies. If the fair value of a reporting unit is less than its carrying value, an impairment loss, if any, is recorded for the difference between the implied fair value and the carrying value of the reporting unit's goodwill.

The Company's indefinite-lived intangible assets consist of trademarks and brands. The estimated fair values of these intangible assets are determined based on a relief-of-royalty income approach derived from internally forecasted revenues of the related products. If the fair value of the trademark or brand is less than its carrying value, an impairment loss is recorded for the difference between the estimated fair value and carrying value of the intangible asset.

The Company performed its annual impairment assessment of goodwill and indefinite-lived intangible assets in the third quarter of 2011 and the third quarter of 2010, which resulted in no impairment charges in 2011 and intangible

asset impairment charges of \$1,006,000 in 2010.

(7) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS

Pension and other postretirement benefit costs related to both continuing and discontinued operations for the three and nine month periods ended September 30, 2011 and 2010 were as follows:

| (In thousands) | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|--|------------------------------------|-----------|----------------------------------|----------|-----------------------------------|-----------|----------------------------------|-----------|
| | Pension | | Other Postretirement Benefits | | Pension | | Other Postretirement Benefits | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Components of net periodic benefit cost: | | | | | | | | |
| Service cost | \$ 23,226 | \$ 23,362 | \$ 3,357 | \$ 3,485 | \$ 70,998 | \$ 70,001 | \$ 10,072 | \$ 10,455 |
| Interest cost | 28,357 | 27,420 | 7,383 | 7,498 | 87,958 | 82,123 | 22,149 | 22,495 |
| Expected return on plan assets | (38,594) | (37,318) | (5,141) | (4,545) | (119,134) | (111,696) | (15,423) | (13,636) |
| Amortization of actuarial loss | 9,716 | 6,501 | 104 | 10 | 29,768 | 19,469 | 312 | 30 |
| Amortization of prior service cost | 195 | 184 | 1,612 | 1,611 | 600 | 551 | 4,836 | 4,834 |
| Amortization of net transition amount | - | 8 | - | - | - | 23 | - | - |
| Net periodic benefit cost | \$ 22,900 | \$ 20,157 | \$ 7,315 | \$ 8,059 | \$ 70,190 | \$ 60,471 | \$ 21,946 | \$ 24,178 |
| Amounts were included in the statement of income as follows: | | | | | | | | |
| Income from continuing operations | \$ 22,040 | \$ 19,356 | \$ 7,229 | \$ 7,959 | \$ 67,564 | \$ 58,063 | \$ 21,688 | \$ 23,878 |
| Income from discontinued operations | 860 | 801 | 86 | 100 | 2,626 | 2,408 | 258 | 300 |
| Total | \$ 22,900 | \$ 20,157 | \$ 7,315 | \$ 8,059 | \$ 70,190 | \$ 60,471 | \$ 21,946 | \$ 24,178 |

The Company expects to contribute approximately \$129,100,000 to its pension plans and \$39,500,000 to its other postretirement plans in 2011. As of September 30, 2011, contributions of \$122,400,000 to pension plans and \$24,300,000 to other postretirement plans have been made.

(8) SHORT-TERM DEBT

The Company had outstanding commercial paper of \$711,983,000 at September 30, 2011 and no outstanding commercial paper at December 31, 2010. Commercial paper is stated at cost, which approximates fair value.

(9) LONG-TERM DEBT

Based on rates for comparable instruments, the approximate fair value and related carrying value of the Company's long-term debt, including current maturities, were as follows:

(In thousands)

| | September 30, 2011 | December 31, 2010 |
|----------------|-----------------------|----------------------|
| Fair value | \$ 4,246,322 | \$ 3,105,228 |
| Carrying value | 3,779,839 | 2,794,303 |

In June 2010, the Company entered into a \$1,000,000,000 Line of Credit Agreement with a termination date of June 10, 2011. This line of credit was replaced on June 10, 2011 by a \$1,000,000,000 Line of Credit Agreement with a termination date of June 10, 2016. No amounts were outstanding under this facility at September 30, 2011.

In August 2011, the Company issued \$350,000,000 of 3.375% notes due September 15, 2021 at 99.552% of face value and \$650,000,000 of 4.875% notes due September 15, 2041 at 98.539% of face value. The effective interest rates of the notes are 3.4% and 4.9%, respectively. These notes are senior unsecured obligations, ranking equal in right of payment with all other senior unsecured indebtedness of the Company.

(10) 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

INTERNATIONAL REPORTING CHANGE

Prior to 2011, the Company's international operations outside of North America had a fiscal reporting period that began on December 1 and ended on November 30. Effective January 1, 2011, the Company eliminated the one month lag for the reporting of its international operations outside of North America. As a result, the Company is now reporting both North American and international results on a calendar year basis. The Company has applied this change in accounting principle retrospectively to all prior financial statement periods presented.

DISCONTINUED OPERATIONS

In April 2011, the Company entered into a definitive agreement to sell its finishing group of businesses to Graco Inc. in a \$650 million cash transaction. The sale is not expected to be completed prior to the end of the fourth quarter of 2011, to accommodate regulatory reviews. The finishing businesses, which were included within the All Other segment, had revenues of approximately \$305 million for the year ended December 31, 2010. Additionally, in the second quarter of 2011, the Company's Board of Directors approved plans to divest a consumer packaging business in the All Other segment and an electronics components business in the Power Systems & Electronics segment, which had combined 2010 revenues of approximately \$100 million. The Company expects to dispose of both businesses within one year. These businesses have been classified as held for sale since the second quarter of 2011.

The held for sale finishing, consumer packaging, and electronics components businesses discussed above, along with a flooring business in the Decorative Surfaces segment that was exited in early 2011 and a security printing business in the All Other segment that was sold in the third quarter of 2010, are reported as discontinued operations in the statement of income. All related prior period income statement information has been restated to conform to the current year reporting of these businesses. See the Discontinued Operations Note in Item 1 – Financial Statements for further details regarding the Company's discontinued operations.

CONSOLIDATED RESULTS OF OPERATIONS

The Company's consolidated results of operations for the third quarter and year-to-date periods of 2011 and 2010 were as follows:

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | | | | | |
|------------------------|--------------------|-------------|-------------------|--------------|------|------|------|------|
| | September 30 | | September 30 | | | | | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Operating revenues | \$4,580,516 | \$3,941,124 | \$13,467,275 | \$11,501,944 | | | | |
| Operating income | 714,284 | 619,725 | 2,083,926 | 1,771,435 | | | | |
| Margin % | 15.6 | % 15.7 | % 15.5 | % 15.4 | | | | |

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In the third quarter and year-to-date periods of 2011, 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 business: | | | | | | |
| Revenue change/Operating leverage | 6.2 | % 16.2 | % 1.5 | % 8.0 | % 21.6 | % 1.9 |
| Changes in variable margins & overhead costs | — | (7.8) | (1.2) | — | (10.3) | (1.5) |
| Total | 6.2 | 8.4 | 0.3 | 8.0 | 11.3 | 0.4 |
| Acquisitions and divestitures | 5.3 | 3.1 | (0.3) | 4.8 | 1.9 | (0.4) |
| Restructuring costs | — | (1.3) | (0.2) | — | (0.1) | — |
| Impairment of goodwill & intangibles | — | 0.2 | — | — | 0.1 | — |
| Translation | 4.7 | 4.9 | 0.1 | 4.3 | 4.5 | 0.1 |
| Other | — | — | — | — | (0.1) | — |
| Total | 16.2 | % 15.3 | (0.1)% | 17.1 | % 17.6 | % 0.1 |

Operating Revenues

Revenues increased 16.2% and 17.1% for the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to higher base revenues, revenues from acquisitions and the favorable effect of currency translation. Base revenues increased 6.2% and 8.0% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 amid economic conditions that have shown some moderation from early in the year but continued to provide growth opportunities. North American base revenues increased 7.8% and 9.1% in the third quarter and year-to-date periods, respectively, while international base revenues increased 4.2% and 6.7% in the same periods. In Europe and China, base revenues increased by 3.8% and 16.2%, respectively, in the third quarter of 2011. End markets associated with the welding, automotive, and test and measurement businesses showed strength in the third quarter and year-to-date periods.

Operating Income

Operating income increased 15.3% and 17.6% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to the increase in base revenues, the favorable effect of currency translation and income from acquisitions. Base margins increased 30 basis points and 40 basis points in the third quarter and year-to-date periods of 2011, respectively, primarily due to the positive leverage effect of the increase in base revenues, partially offset by the negative impact of selling price versus material cost comparisons. Acquisitions and divestitures diluted operating margins by 30 and 40 basis points in the third quarter and year-to-date periods, respectively. Acquisitions were dilutive to margins primarily due to amortization expense related to intangible assets.

Certain reclassifications of prior year segment data have been made to conform to current year reporting. The reconciliation of segment operating revenues to total operating revenues is as follows:

| (In thousands) | Three Months Ended September 30 | Nine Months Ended September 30 |
|----------------|------------------------------------|-----------------------------------|
|----------------|------------------------------------|-----------------------------------|

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| | 2011 | 2010 | 2011 | 2010 |
|-----------------------------|-------------|-------------|--------------|--------------|
| Transportation | \$790,595 | \$628,387 | \$2,350,946 | \$1,895,766 |
| Industrial Packaging | 664,272 | 575,145 | 1,993,159 | 1,694,585 |
| Power Systems & Electronics | 750,498 | 619,310 | 2,157,849 | 1,793,158 |
| Food Equipment | 511,456 | 487,457 | 1,475,233 | 1,368,414 |
| Construction Products | 513,765 | 455,801 | 1,496,920 | 1,306,830 |
| Polymers & Fluids | 362,386 | 277,732 | 1,047,326 | 822,406 |
| Decorative Surfaces | 283,180 | 251,361 | 835,032 | 746,650 |
| All Other | 725,719 | 669,054 | 2,178,082 | 1,941,114 |
| Intersegment revenues | (21,355) | (23,123) | (67,272) | (66,979) |
| Total operating revenues | \$4,580,516 | \$3,941,124 | \$13,467,275 | \$11,501,944 |

TRANSPORTATION

Businesses in this segment produce components, fasteners, fluids and polymers, as well as truck remanufacturing and related parts and service.

In the Transportation segment, products and services include:

- metal and plastic components, fasteners and assemblies for automobiles and light trucks;
- fluids, polymers and other supplies for auto aftermarket maintenance and appearance;
- fillers and putties for auto body repair;
- polyester coatings and patch and repair products for the marine industry; and
- truck remanufacturing and related parts and service.

This segment primarily serves the automotive original equipment manufacturers and tiers, and the automotive aftermarket.

The results of operations for the Transportation segment for the third quarter and year-to-date periods of 2011 and 2010 were as follows:

| (Dollars in thousands) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|------------------------|------------------------------------|-----------|-----------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Operating revenues | \$790,595 | \$628,387 | \$2,350,946 | \$1,895,766 |
| Operating income | 120,852 | 92,020 | 360,874 | 288,309 |
| Margin % | 15.3 | % 14.6 | % 15.4 | % 15.2 |

In the third quarter and year-to-date periods of 2011, 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) | % Increase (Decrease) | % Point Increase (Decrease) | % Increase (Decrease) | % Increase (Decrease) | % Point Increase (Decrease) |
| Base business: | | | | | | |
| Revenue change/Operating leverage | 9.5 | % 23.7 | % 1.9 | % 10.6 | % 25.6 | % 2.1 |
| Changes in variable margins & overhead costs | — | (9.9) | (1.3) | — | (9.5) | (1.3) |
| Total | 9.5 | 13.8 | 0.6 | 10.6 | 16.1 | 0.8 |
| Acquisitions | 12.2 | 11.6 | (0.1) | 9.8 | 4.3 | (0.8) |
| Restructuring costs | — | 0.5 | 0.1 | — | 0.1 | — |
| Translation | 4.1 | 5.5 | 0.2 | 3.7 | 4.7 | 0.1 |
| Other | — | (0.1) | (0.1) | (0.1) | — | 0.1 |
| Total | 25.8 | % 31.3 | % 0.7 | % 24.0 | % 25.2 | % 0.2 |

Operating Revenues

Revenues increased 25.8% and 24.0% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to revenues from acquisitions, the increase in base revenues, and the favorable effect of currency translation. The increase in acquisition revenue is primarily due to the purchase of two North American automotive aftermarket businesses, one in the second quarter of 2010, and one in the first quarter of 2011, and an international automotive aftermarket business in the third quarter of 2011. North American automotive base revenues increased 6.9% and 10.4% in the third quarter and year-to-date periods, respectively, due to an increase in North American auto builds of 5.7% and 7.6% in the third quarter and year-to-date periods, respectively, and increased product penetration. International automotive base revenues increased 11.3% and 11.0% in the third quarter and year-to-date periods, respectively, due to an increase in European auto builds of 5.2% and 7.8% for the respective periods, increased product penetration and gains in emerging markets. The automotive aftermarket base business increased 5.4% and 4.1% and the truck remanufacturing and related parts and service business increased 17.7% and 19.7% for the third quarter and year-to-date periods of 2011, respectively, primarily due to increased demand in North America.

Operating Income

Operating income increased 31.3% and 25.2% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to the increase in base revenues, income from acquisitions and the favorable effect of currency translation. Base margins increased 60 and 80 basis points for the third quarter and year-to-date periods, respectively, primarily as a result of positive leverage from the increase in base revenues partially offset by the negative impact of selling price versus material cost comparisons and higher operating costs. Acquisitions diluted operating margins by 10 and 80 basis points in the third quarter and year-to-date periods, respectively.

INDUSTRIAL PACKAGING

Businesses in this segment produce steel, plastic and paper products and equipment used for bundling, shipping and protecting goods in transit.

In the Industrial Packaging segment, products include:

- steel and plastic strapping and related tools and equipment;
- plastic stretch film and related equipment;
- paper and plastic products that protect goods in transit; and
- metal jacketing and other insulation products.

This segment primarily serves the general industrial, primary metals, food and beverage, and construction markets.

The results of operations for the Industrial Packaging segment for the third quarter and year-to-date periods of 2011 and 2010 were as follows:

| (Dollars in thousands) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|------------------------|------------------------------------|-----------|-----------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Operating revenues | \$664,272 | \$575,145 | \$1,993,159 | \$1,694,585 |
| Operating income | 70,386 | 63,445 | 212,284 | 182,935 |
| Margin % | 10.6 | % 11.0 | % 10.7 | % 10.8 |

In the third quarter and year-to-date periods of 2011, 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) | % Increase (Decrease) | % Point Increase (Decrease) | % Increase (Decrease) | % Increase (Decrease) | % Point Increase (Decrease) |
| Base business: | | | | | | |
| Revenue change/Operating leverage | 6.3 | % 21.7 | % 1.6 | % 9.9 | % 35.8 | % 2.5 |
| Changes in variable margins & overhead costs | — | (18.9) | (2.0) | — | (27.3) | (2.7) |
| Total | 6.3 | 2.8 | (0.4) | 9.9 | 8.5 | (0.2) |
| Acquisitions | 3.6 | 3.5 | — | 2.5 | 2.3 | — |

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| | | | | | | | | | | | |
|---------------------|------|------|------|------|------|-----|------|---|------|--------|----|
| Restructuring costs | — | (1.3 |) | (0.1 |) | — | (1.2 |) | (0.1 |) | |
| Translation | 5.5 | 6.0 | | 0.1 | | 5.2 | 6.5 | | 0.1 | | |
| Other | 0.1 | (0.1 |) | — | | — | (0.1 |) | 0.1 | | |
| Total | 15.5 | % | 10.9 | % | (0.4 |)% | 17.6 | % | 16.0 | % (0.1 |)% |

Operating Revenues

Operating revenues increased 15.5% and 17.6% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to the increase in base revenues, the favorable effect of currency translation and revenues from acquisitions. The increase in acquisition revenue is primarily due to the purchase of a protective packaging business in the second quarter of 2011. Base revenues increased 12.0% and 12.8% for the North American strapping and equipment businesses in the third quarter and year-to-date periods, respectively, primarily due to higher steel and plastic strapping prices and higher equipment sales. Base revenues for the international strapping and equipment businesses increased 3.7% and 8.5% in the third quarter and year-to-date periods, respectively, primarily due to an increase in strapping prices. Worldwide protective packaging base revenues increased 4.7% and 7.5% in the third quarter and year-to-date periods, respectively, while worldwide stretch packaging base revenues increased 10.3% and 14.5% in the same periods.

Operating Income

Operating income increased 10.9% and 16.0% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to the favorable effect of the increase in base revenues, the favorable effect of currency translation and income from acquisitions. Base operating margins decreased 40 and 20 basis points in the third quarter and year-to-date periods of 2011, respectively, primarily due to the negative impact of selling price versus material cost comparisons and increased operating expenses, partially offset by the positive leverage effect of the increase in base revenues.

POWER SYSTEMS & ELECTRONICS

Businesses in this segment produce equipment and consumables associated with specialty power conversion, metallurgy and electronics.

In the Power Systems & Electronics segment, products include:

- arc welding equipment;
- metal arc welding consumables and related accessories;
- metal solder materials for PC board fabrication;
- equipment and services for microelectronics assembly;
- electronic components and component packaging;
- static and contamination control equipment;
- airport ground support equipment; and
- pressure sensitive adhesives and components for telecommunications, electronics, medical and transportation applications.

This segment primarily serves the general industrial, electronics and construction markets.

The results of operations for the Power Systems & Electronics segment for the third quarter and year-to-date periods of 2011 and 2010 were as follows:

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|------------------------|--------------------|-----------|-------------------|-------------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Operating revenues | \$750,498 | \$619,310 | \$2,157,849 | \$1,793,158 |
| Operating income | 147,813 | 127,974 | 441,446 | 361,039 |
| Margin % | 19.7 | % 20.7 | % 20.5 | % 20.1 |

In the third quarter and year-to-date periods of 2011, the changes in operating 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 business: | | | | | | |
| Revenue change/Operating leverage | 11.7 | % | 23.0 | % | 2.1 | % |
| Changes in variable margins & overhead costs | — | | (8.8) |) | (1.6) |) |
| Total | 11.7 | | 14.2 | | 0.5 | |
| Acquisitions | 6.1 | | (0.7) |) | (1.2) |) |
| Restructuring costs | — | | (1.0) |) | (0.2) |) |
| Translation | 3.3 | | 2.9 | | — | |
| Other | 0.1 | | 0.1 | | (0.1) |) |
| Total | 21.2 | % | 15.5 | % | (1.0) |)% |
| | | | | | 20.3 | % |
| | | | | | 22.3 | % |
| | | | | | 0.4 | % |

Operating Revenues

Revenues increased 21.2% and 20.3% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to growth in base business, revenues from acquisitions and the favorable effect of currency translation. The acquisition revenue was primarily due to the purchase of an ionization control and monitoring systems business in the second quarter of 2010, an automated welding systems business in the fourth quarter of 2010, and a thermal processing and environmental equipment manufacturer in the third quarter of 2011. North American welding base business revenues increased 26.1% and 24.4% in the third quarter and year-to-date periods, respectively, as a number of industrial-based end markets continued to have strong demand. In particular, increased sales in oil and gas end markets as well as sales to heavy equipment OEM's and other manufacturers helped drive base revenues. Base business revenues for the international welding businesses increased 6.3% and 11.0% in the same periods, primarily due to growth in the Asian oil and gas end markets. Base revenues for the electronics businesses increased 1.7% and 4.7% for the third quarter and year-to-date periods mainly due to growth in the PC board fabrication businesses, offset by declines in other electronics businesses.

Operating Income

Operating income increased 15.5% and 22.3% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 mainly due to the increase in base revenues and the favorable effect of currency translation. Base margins increased 50 and 110 basis points in the third quarter and year-to-date periods, respectively, primarily due to the positive leverage effect of the growth in base business revenues, partially offset by the negative impact of selling price versus material cost comparisons and higher overhead expenses. Acquisitions diluted operating margins by 120 and 60 basis points in the third quarter and year-to-date periods, respectively.

FOOD EQUIPMENT

Businesses in this segment produce commercial food equipment and related service.

In the Food Equipment segment, products and services include:

- warewashing equipment;
- cooking equipment, including ovens, ranges and broilers;
- refrigeration equipment, including refrigerators, freezers and prep tables;
- food processing equipment, including slicers, mixers and scales;
- kitchen exhaust, ventilation and pollution control systems; and
- food equipment service, maintenance and repair.

This segment primarily serves the food institutional/restaurant, service and food retail markets.

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The results of operations for the Food Equipment segment for the third quarter and year-to-date periods of 2011 and 2010 were as follows:

| (Dollars in thousands) | Three Months Ended | | | | Nine Months Ended | | | |
|------------------------|--------------------|-----------|-------------|-------------|-------------------|--|------|--|
| | September 30 | | | | September 30 | | | |
| | 2011 | | 2010 | | 2011 | | 2010 | |
| Operating revenues | \$511,456 | \$487,457 | \$1,475,233 | \$1,368,414 | | | | |
| Operating income | 83,123 | 86,244 | 217,253 | 204,523 | | | | |
| Margin % | 16.3 | % 17.7 | % 14.7 | % 14.9 | | | | |

In the third quarter and year-to-date periods of 2011, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

| | Three Months Ended | | | Nine Months Ended | | |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | September 30 | | | September 30 | | |
| | % | % | % Point | % | % | % Point |
| | Increase (Decrease) | Increase (Decrease) | Increase (Decrease) | Increase (Decrease) | Increase (Decrease) | Increase (Decrease) |
| | Operating Revenues | Operating Income | Operating Margins | Operating Revenues | Operating Income | Operating Margins |
| Base business: | | | | | | |
| Revenue change/Operating leverage | (0.5)% | (1.2)% | (0.1)% | 2.5 % | 7.1 % | 0.7 % |
| Changes in variable margins & overhead costs | — | (6.1) | (1.1) | — | 1.3 | 0.2 |
| Total | (0.5) | (7.3) | (1.2) | 2.5 | 8.4 | 0.9 |
| Acquisitions | 1.2 | 0.1 | (0.2) | 1.6 | (0.5) | (0.3) |
| Restructuring costs | — | (0.4) | (0.1) | — | (5.5) | (0.8) |
| Translation | 4.2 | 4.0 | 0.1 | 3.7 | 3.9 | — |
| Other | — | — | — | — | (0.1) | — |
| Total | 4.9 % | (3.6)% | (1.4)% | 7.8 % | 6.2 % | (0.2)% |

Operating Revenues

Revenues increased 4.9% and 7.8% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 due to the favorable effect of currency translation and revenues from acquisitions. Acquisition revenue is attributable to a European food equipment business purchased in the third quarter of 2010. North American base revenues decreased 0.8% in the third quarter and increased 3.1% for the year-to-date period as equipment revenues decreased 3.2% in the third quarter and increased 3.6% for the year-to-date period, and service revenues increased 3.3% and 2.3%, respectively. The decline in third quarter North American base equipment revenues was primarily driven by weakness in institutional end markets. International base revenues decreased 0.2% in the third quarter as equipment revenues decreased 1.9%, partially offset by an increase in service revenues of 4.0%. International equipment sales were negatively impacted by lower equipment sales in Europe, partially offset by stronger sales in Latin America and Asia. For the year-to-date period, international base revenues increased 1.7% as equipment revenues increased 1.2% and service revenues increased 3.0%.

Operating Income

Operating income decreased 3.6% in the third quarter and increased 6.2% in the year-to-date period of 2011 versus 2010. The third quarter decline was primarily due to unfavorable product mix and the negative leverage effect of

lower base revenues, partially offset by the positive effect of currency translation. Base margins decreased 120 basis points in the third quarter primarily due to unfavorable product mix. Base margins increased 90 basis points in the year-to-date period primarily due to the favorable leverage effect of the increase in base revenues and adjustments related to a European business in 2010, partially offset by the negative impact of selling price versus material cost comparisons. Higher restructuring expenses diluted operating margins by 80 basis points in the year-to-date period and acquisitions diluted margins by 20 and 30 basis points in the third quarter and year-to-date periods, respectively.

CONSTRUCTION PRODUCTS

Businesses in this segment produce tools, fasteners and other products for construction applications.

In the Construction Products segment, products include:

- fasteners and related fastening tools for wood and metal applications;
- anchors, fasteners and related tools for concrete applications;
- metal plate truss components and related equipment and software; and
- packaged hardware, fasteners, anchors and other products for retail.

This segment primarily serves the residential construction, commercial construction and renovation construction markets.

The results of operations for the Construction Products segment for the third quarter and year-to-date periods of 2011 and 2010 were as follows:

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|------------------------|--------------------|-----------|-------------------|-------------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Operating revenues | \$513,765 | \$455,801 | \$1,496,920 | \$1,306,830 |
| Operating income | 63,735 | 52,721 | 173,712 | 152,671 |
| Margin % | 12.4 | % 11.6 | % 11.6 | % 11.7 |

In the third quarter and year-to-date periods of 2011, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

| | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|------------|------------|-------------------|------------|------------|
| | September 30 | | | September 30 | | |
| | % | % | % Point | % | % | % Point |
| | Increase | Increase | Increase | Increase | % Increase | Increase |
| | (Decrease) | (Decrease) | (Decrease) | (Decrease) | (Decrease) | (Decrease) |
| | Operating | Operating | Operating | Operating | Operating | Operating |
| | Revenues | Income | Margins | Revenues | Income | Margins |
| Base business: | | | | | | |
| Revenue change/Operating leverage | 2.9 | % 10.4 | % 0.8 | % 2.7 | % 10.2 | % 0.9 |
| Changes in variable margins & overhead costs | — | (1.2) | (0.1) | — | (15.6) | (1.8) |
| Total | 2.9 | 9.2 | 0.7 | 2.7 | (5.4) | (0.9) |
| Acquisitions | 1.2 | 0.9 | (0.1) | 3.9 | 0.8 | (0.3) |
| Restructuring costs | — | (1.9) | (0.2) | — | 6.7 | 0.8 |
| Translation | 8.6 | 12.7 | 0.4 | 7.9 | 11.8 | 0.4 |
| Other | — | — | — | — | (0.1) | (0.1) |
| Total | 12.7 | % 20.9 | % 0.8 | % 14.5 | % 13.8 | % (0.1) |

Operating Revenues

Revenues increased 12.7% and 14.5% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to the favorable effect of currency translation, revenues from acquisitions and an increase in base revenue. Acquisition revenue was primarily due to the acquisition of a Canadian fastener business in the second

quarter of 2011 and a European retail distribution business in the second quarter of 2010. International base revenues increased 1.0% and 3.6% in the third quarter and year-to-date periods, respectively, primarily driven by a 3.3% and 8.4% increase in European base revenues in the third quarter and year-to-date periods, respectively, versus 2010. While European base revenues grew year-over-year, the rate of growth moderated in the third quarter of 2011 from that experienced earlier in the year. Base revenues for the Asia Pacific region decreased 1.7% and 1.6% for the same periods primarily due to pricing pressure in the Australian/New Zealand market and weakness in the Australian residential housing market. North American base revenues increased 7.4% and 0.4% in the third quarter and year-to-date periods, respectively. In the third quarter, North American base revenues benefited from price increases implemented to offset higher steel prices. Year-to-date North American base revenue comparisons were negatively impacted by a one-time licensing agreement settlement that positively impacted revenues in the second quarter of 2010.

Operating Income

Operating income increased 20.9% and 13.8% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to the positive leverage from the increase in base revenues described above, the favorable effect of currency translation and income from acquisitions. Additionally, operating income increased in the year-to-date period due to lower restructuring expenses. Base margins increased 70 basis points in the third quarter of 2011 as the positive leverage from the increase in base revenues was partially offset by the negative impact of selling price versus material cost comparisons. Base margins declined 90 basis points in the year-to-date period primarily due to the one-time licensing agreement settlement in 2010 and the negative impact of selling price versus material cost comparisons in 2011.

POLYMERS & FLUIDS

Businesses in this segment produce adhesives, sealants, lubrication and cutting fluids, and hygiene products.

In the Polymers & Fluids segment, products include:

- adhesives for industrial, construction and consumer purposes;
- chemical fluids which clean or add lubrication to machines;
- epoxy and resin-based coating products for industrial applications; and
- hand wipes and cleaners for industrial applications.

This segment primarily serves the general industrial, construction, maintenance, repair and operations, and automotive aftermarket markets.

The results of operations for the Polymers & Fluids segment for the third quarter and year-to-date periods of 2011 and 2010 were as follows:

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|-------------------------|--------------------|-----------|-------------------|-----------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Operating revenues | \$362,386 | \$277,732 | \$1,047,326 | \$822,406 |
| Operating income (loss) | 61,837 | 49,893 | 170,472 | 150,693 |
| Margin % | 17.1 | % 18.0 | % 16.3 | % 18.3 |

In the third quarter and year-to-date periods of 2011, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

| | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|------------|------------|-------------------|------------|------------|
| | September 30 | | | September 30 | | |
| | % | % | % Point | % | % | % Point |
| | Increase | Increase | Increase | Increase | Increase | Increase |
| | (Decrease) | (Decrease) | (Decrease) | (Decrease) | (Decrease) | (Decrease) |
| | Operating | Operating | Operating | Operating | Operating | Operating |
| | Revenues | Income | Margins | Revenues | Income | Margins |
| Base business: | | | | | | |
| Revenue change/Operating leverage | 8.2 | % 19.8 | % 1.9 | % 4.9 | % 11.9 | % 1.2 |
| Changes in variable margins & overhead costs | — | 1.6 | 0.3 | — | (8.1) | (1.4) |

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| | | | | | | |
|---------------------|------|--------|-----------|--------|--------|-----------|
| Total | 8.2 | 21.4 | 2.2 | 4.9 | 3.8 | (0.2) |
| Acquisitions | 16.4 | 6.5 | (1.5) | 16.9 | 8.5 | (1.1) |
| Restructuring costs | — | (9.9) | (1.7) | — | (4.4) | (0.8) |
| Translation | 5.9 | 6.0 | 0.1 | 5.6 | 5.3 | 0.1 |
| Other | — | (0.1) | — | (0.1) | (0.1) | — |
| Total | 30.5 | % 23.9 | % (0.9)% | 27.3 | % 13.1 | % (2.0)% |

Operating Revenues

Revenues increased 30.5% and 27.3% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to revenues from acquisitions, the favorable effect of currency translation and the increase in base revenues. Acquisition revenue was primarily the result of the purchase of an international polymers business and a Latin American fluids business in the fourth quarter of 2010, as well as a Latin American solvent business in the second quarter of 2011. Worldwide base revenues for the polymers businesses increased 9.0% and 4.7% in the third quarter and year-to-date periods, respectively. Worldwide base revenues for the fluids businesses increased 5.7% and 5.2% in the third quarter and year-to-date periods, respectively. Growth in emerging markets, including Brazil and China, continued to outperform other markets.

Operating Income

Operating income increased 23.9% and 13.1% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to the increase in base revenues, income from acquisitions and the favorable effect of currency translation, partially offset by higher restructuring expenses. Base margins increased 220 basis points in the third quarter due to the positive leverage effect of the increase in base revenues and operational efficiencies. Base margins decreased 20 basis points for the year-to-date period due to the negative impact of selling price versus material cost comparisons and increased overhead costs resulting from higher investment in new product development and other growth initiatives, partially offset by the positive leverage effect of the increase in base revenues. Acquisitions diluted margins by 150 and 110 basis points in the third quarter and year-to-date periods, respectively.

DECORATIVE SURFACES

Businesses in this segment produce decorative surfacing materials for furniture, office and retail space, countertops, and other applications.

In the Decorative Surfaces segment, products include:

- decorative high-pressure laminate for furniture, office and retail space and countertops; and
- high-pressure laminate worktops.

This segment serves the commercial construction, renovation construction and residential construction markets.

The results of operations for the Decorative Surfaces segment for the third quarter and year-to-date periods of 2011 and 2010 were as follows:

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|------------------------|--------------------|-----------|-------------------|-----------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Operating revenues | \$283,180 | \$251,361 | \$835,032 | \$746,650 |
| Operating income | 34,228 | 31,529 | 103,607 | 95,538 |
| Margin % | 12.1 | % 12.5 | % 12.4 | % 12.8 |

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In the third quarter and year-to-date periods of 2011, 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) | % Increase (Decrease) | % Point Increase (Decrease) | % Increase (Decrease) | % Increase (Decrease) | % Point Increase (Decrease) |
| Base business: | | | | | | |
| Revenue change/Operating leverage | 8.7 | % | 27.9 | % | 2.2 | % |
| Changes in variable margins & overhead costs | — | | (22.7) |) | (2.6) |) |
| Total | 8.7 | | 5.2 | | (0.4) |) |
| Acquisitions | — | | — | | — | |
| Restructuring costs | — | | 0.2 | | — | |
| Translation | 4.0 | | 3.2 | | — | |
| Total | 12.7 | % | 8.6 | % | (0.4) |)% |
| | | | | | 11.8 | % |
| | | | | | 8.4 | % |
| | | | | | 0.1 | |
| | | | | | (1.0) |) |

Operating Revenues

Revenues increased 12.7% and 11.8% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 due to an increase in base business and the favorable effect of currency translation. Base revenues increased 7.0% and 6.8% for the North American laminate businesses in the third quarter and year-to-date periods, respectively, primarily due to new product introductions and increased product demand in the office furniture market. International base revenues increased 10.5% and 10.4% in the third quarter and year-to-date periods, respectively, primarily due to increased demand for products in China and Europe.

Operating Income

Operating income increased 8.6% and 8.4% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to the increase in base revenues, lower restructuring expenses and the favorable effect of currency translation, partially offset by higher operating costs. Base margins declined 40 and 100 basis points in the third quarter and year-to-date periods, respectively, as the positive leverage effect of the increase in base revenues was more than offset by the negative impact of selling price versus material cost comparisons and higher operating costs.

ALL OTHER

This segment contains all other operating segments.

In the All Other segment, products include:

- equipment and related software for testing and measuring of materials and structures;
- plastic reclosable packaging for consumer food storage;
- plastic consumables that multi-pack cans and bottles and related equipment;
- plastic fasteners and components for appliances, furniture and industrial uses;
- metal fasteners and components for appliances and industrial applications;
- foil, film and related equipment used to decorate consumer products;
- product coding and marking equipment and related consumables; and

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- line integration, conveyor systems and line automation for the food and beverage industries.

This segment primarily serves the general industrial, food and beverage, and consumer durables.

The results of operations for the All Other segment for the third quarter and year-to-date periods of 2011 and 2010 were as follows:

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | | | |
|------------------------|--------------------|-----------|-------------------|-------------|------|------|
| | September 30 | | September 30 | | | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Operating revenues | \$725,719 | \$669,054 | \$2,178,082 | \$1,941,114 | | |
| Operating income | 132,310 | 115,899 | 404,278 | 335,727 | | |
| Margin % | 18.2 | % 17.3 | % 18.6 | % 17.3 | | % |

In the third quarter and year-to-date periods of 2011, 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 business: | | | | | | |
| Revenue change/Operating leverage | 3.1 | % 8.0 | % 0.8 | % 7.1 | % 18.7 | % 1.9 |
| Changes in variable margins & overhead costs | — | (0.7) | (0.1) | — | (2.8) | (0.5) |
| Total | 3.1 | 7.3 | 0.7 | 7.1 | 15.9 | 1.4 |
| Acquisitions and divestitures | 2.5 | 3.0 | 0.1 | 2.5 | 0.7 | (0.3) |
| Restructuring costs | — | (0.1) | — | — | 0.8 | 0.1 |
| Impairment of goodwill & intangibles | — | 0.9 | 0.2 | — | 0.3 | 0.1 |
| Translation | 2.9 | 3.2 | — | 2.6 | 2.7 | — |
| Other | — | (0.1) | (0.1) | — | — | — |
| Total | 8.5 | % 14.2 | % 0.9 | % 12.2 | % 20.4 | % 1.3 |

Operating Revenues

Revenues increased 8.5% and 12.2% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to an increase in base business revenues, the favorable effect of currency translation and revenues from acquisitions. The acquisition revenue is primarily due to the purchase of a test and measurement business in the fourth quarter of 2010, a plastics and security business in the second quarter of 2010 and a heat transfer business in the second quarter of 2011. Base revenues increased 11.2% and 15.7% in the third quarter and year-to-date periods, respectively, for the worldwide test and measurement businesses due to increased equipment orders in both North America and internationally. For the consumer packaging businesses, base business revenues were flat in the third quarter as growth in the worldwide decorating businesses was offset by a decrease in the beverage packaging businesses. For the year-to-date period, base revenues increased 4.1% for the consumer packaging businesses due to growth in the beverage packaging solutions, decorating equipment and marking and labels businesses. Base revenues in the worldwide industrial fasteners and appliance businesses decreased 4.9% and 0.2% in the third quarter and year-to-date periods of 2011, respectively, primarily due to weakness in the appliance end market.

Operating Income

Operating income increased 14.2% and 20.4% in the third quarter and year-to-date periods of 2011, respectively, versus 2010 primarily due to growth in base revenues, the favorable effect of currency translation, and income from acquisitions. Base margins increased 70 and 140 basis points in the third quarter and year-to-date periods, respectively, primarily due to the positive leverage effect of the increase in base revenues, partially offset by the negative impact of selling price versus material cost comparisons. Acquisitions and divestitures improved total operating margins by 10 basis points in the third quarter and diluted margins by 30 basis points in the year-to-date period of 2011.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization expense increased to \$186.3 million in the first nine months of 2011 versus \$154.7 million in the first nine months of 2010, due to intangible amortization related to newly acquired businesses.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

The Company performed its annual impairment assessment of goodwill and indefinite-lived intangible assets in the third quarter of 2011 and the third quarter of 2010, which resulted in no impairment charges in 2011 and \$1.0 million of intangible asset impairment charges in 2010.

INTEREST EXPENSE

Interest expense increased to \$138.0 million in the first nine months of 2011, which includes interest expense on the 3.375% and 4.875% notes issued in late August of 2011, versus \$131.1 million in the first nine months of 2010.

OTHER INCOME (EXPENSE)

Other income (expense) was income of \$45.9 million for the first nine months of 2011 versus income of \$7.0 million in 2010 primarily due to higher interest income and lower currency translation losses in 2011.

INCOME TAXES

The effective tax rate for the first nine months of 2011 was 20.7% which included the favorable discrete non-cash tax benefit of \$165.9 million in the first quarter of 2011 related to the decision in the Company's favor by the Federal Court of Australia, Victoria with respect to a significant portion of the income tax deductions that had been challenged by the Australian Tax Office. The effective tax rate for the first nine months of 2010 was 31.8%, which included the discrete tax charge of \$21.9 million related to the Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act. See the Income Taxes Note in Item 1 – Financial Statements for further details on these discrete tax adjustments.

INCOME FROM CONTINUING OPERATIONS

Income from continuing operations of \$1.6 billion (\$3.17 per diluted share) in the first nine months of 2011 was 40.5% higher than the 2010 income from continuing operations of \$1.1 billion (\$2.23 per diluted share).

FOREIGN CURRENCY

The strengthening of foreign currencies against the U.S. Dollar increased operating revenues for the first nine months of 2011 by approximately \$550 million and income from continuing operations by approximately 13 cents per diluted share versus 2010.

INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations increased to \$49.3 million (\$0.10 per diluted share) in the first nine months of 2011 versus \$43.1 million (\$0.09 per diluted share) in 2010 primarily as a result of improved operating results in the held for sale finishing businesses. See the Discontinued Operations Note in Item 1 – Financial Statements for further details regarding the Company's discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity are free operating cash flows and short-term credit facilities. Management continues to believe that internally generated cash flows will be adequate to service debt, to continue to pay dividends, to finance internal growth and to fund small to medium-sized acquisitions.

The primary uses of liquidity are:

- dividend payments – the Company's dividend payout guidelines are 30% to 45% of the average of the last two years of free operating cash flow;
- acquisitions; and
- any excess liquidity may be used for share repurchases.

Cash Flow

The Company uses free operating cash flow to measure cash flow generated by operations that is available for dividends, acquisitions, share repurchases and debt repayment. The Company believes this measure is useful to

investors in evaluating our financial performance and measures our ability to generate cash internally to fund Company initiatives. Free operating cash flow is a measurement that is not the same as net cash flow from operating activities per the statement of cash flows and may not be consistent with similarly titled measures used by other companies.

Summarized cash flow information for the third quarter and year-to-date periods of 2011 and 2010 was as follows:

| (In thousands) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|--------------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Net cash provided by operating activities | \$787,176 | \$523,968 | \$1,244,345 | \$1,132,139 |
| Additions to plant and equipment | (82,960) | (76,334) | (258,914) | (199,615) |
| Free operating cash flow | \$704,216 | \$447,634 | \$985,431 | \$932,524 |
| Cash dividends paid | \$(167,081) | \$(156,088) | \$(506,331) | \$(467,583) |
| Acquisitions | (450,839) | (84,655) | (1,198,694) | (301,485) |
| Proceeds from sale of operations and affiliates | 396 | 60,751 | 1,782 | 62,154 |
| Issuance of common stock | 8,821 | 15,809 | 140,283 | 58,661 |
| Repurchases of common stock | (400,000) | (350,000) | (950,000) | (350,000) |
| Net proceeds from debt | 577,923 | 267,110 | 1,691,086 | 339,803 |
| Other | 22,130 | 15,606 | 54,268 | 55,474 |
| Effect of exchange rate changes on cash and equivalents | (207,343) | 167,857 | (85,307) | 49,625 |
| Net increase in cash and equivalents | \$88,223 | \$384,024 | \$132,518 | \$379,173 |

On August 20, 2007, the Company's Board of Directors authorized a 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 (the "2007 Program"). Under the 2007 Program, the Company made repurchases of approximately 9.6 million shares of its common stock at an average price of \$57.01 per share during the second quarter of 2011 and approximately 6.6 million shares at an average price of \$48.41 during the third quarter of 2011. As of September 30, 2011, there were no authorized purchases remaining under the 2007 Program.

On May 6, 2011, the Company's Board of Directors authorized a new stock repurchase program which provides for the buyback of up to an additional \$4.0 billion of the Company's common stock over an open-ended period of time (the "2011 Program"). In the third quarter of 2011, the Company made repurchases of approximately 1.8 million shares of its common stock at an average price of \$43.20. As of September 30, 2011, there was approximately \$3.9 billion of authorized repurchases remaining under the 2011 Program.

Return on Average Invested Capital

The Company uses return on average invested capital (“ROIC”) to measure the effectiveness of its operations’ use of invested capital to generate profits. The Company believes that ROIC is a meaningful metric to investors in evaluating the Company’s financial performance and may be different than the method used by other companies to calculate ROIC. Invested capital represents the net assets of the Company, excluding cash and equivalents and outstanding debt, which are excluded as they do not represent capital investment in the Company’s operations. Average invested capital is calculated using balances at the start of the year and at the end of each quarter. For the third quarter and year-to-date periods of 2011 and 2010, ROIC was as follows:

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------|-------------------|--------------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Operating income | \$714,284 | \$619,725 | \$2,083,926 | \$1,771,435 |
| Taxes (29.0%, 30.2%, 29.0% and 30.4%, respectively), as adjusted | (207,142) | (187,157) | (604,339) | (538,516) |
| Operating income after taxes, as adjusted | \$507,142 | \$432,568 | \$1,479,587 | \$1,232,919 |
| Invested capital: | | | | |
| Trade receivables | \$2,985,354 | \$2,747,545 | \$2,985,354 | \$2,747,545 |
| Inventories | 1,794,327 | 1,612,741 | 1,794,327 | 1,612,741 |
| Net plant and equipment | 2,037,934 | 2,051,235 | 2,037,934 | 2,051,235 |
| Investments | 424,441 | 446,105 | 424,441 | 446,105 |
| Goodwill and intangible assets | 7,431,697 | 6,579,047 | 7,431,697 | 6,579,047 |
| Accounts payable and accrued expenses | (2,253,629) | (2,220,571) | (2,253,629) | (2,220,571) |
| Net assets held for sale | 314,424 | — | 314,424 | — |
| Other, net | 361,505 | (223,161) | 361,505 | (223,161) |
| Total invested capital | \$13,096,053 | \$10,992,941 | \$13,096,053 | \$10,992,941 |
| Average invested capital | \$13,180,272 | \$10,761,603 | \$12,564,353 | \$10,605,467 |
| Annualized return on average invested capital | 15.4 % | 16.1 % | 15.7 % | 15.5 % |

The ROIC decrease of 70 basis points in the third quarter of 2011 compared to the third quarter of 2010 was the result of average invested capital increasing 22.5%, while operating income after taxes increased 17.2%.

The ROIC increase of 20 basis points for the year-to-date period of 2011 compared to 2010 was the result of operating income after taxes increasing 20.0%, while average invested capital increased 18.5%.

In the first quarter of 2011, the Company recorded a favorable discrete non-cash tax benefit of \$165.9 million related to the decision in the Company's favor by the Federal Court of Australia, Victoria with respect to a significant portion of the income tax deductions that had been challenged by the Australian Tax Office. See the Income Taxes Note in Item 1 – Financial Statements for further details on this discrete tax adjustment. Since the benefit was unusual, the ROIC calculation has been adjusted to exclude this item to improve comparability and better reflect the return on average invested capital for the periods presented. A reconciliation of the 2011 year-to-date tax rate, as reported, to the tax rate used above is as follows:

| Nine Months Ended September 30, 2011 | | | |
|--------------------------------------|--|-----------------|----------|
| (Dollars in thousands) | Income from Continuing Operations Before Income Taxes | Income Taxes | Tax Rate |
| As reported | \$ 1,991,899 | \$ 412,000 | 20.7% |
| Discrete tax adjustment | — | 165,927 | 8.3% |
| As adjusted | \$ 1,991,899 | \$ 577,927 | 29.0% |

In the first quarter of 2010, the Company recorded a discrete tax charge of \$21.9 million related to the Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act. See the Income Taxes Note in Item 1 – Financial Statements for further details on this discrete tax adjustment. Since this charge was unusual, the ROIC calculation has been adjusted to exclude this item to improve comparability and better reflect the return on average invested capital for the periods presented. A reconciliation of the 2010 year-to-date tax rate, as reported, to the tax rate used above is as follows:

| Nine Months Ended September 30, 2010 | | | |
|--------------------------------------|--|-----------------|----------|
| (Dollars in thousands) | Income from Continuing Operations Before Income Taxes | Income Taxes | Tax Rate |
| As reported | \$ 1,647,427 | \$ 523,285 | 31.8% |
| Discrete tax adjustment | — | (21,881) | (1.4)% |
| As adjusted | \$ 1,647,427 | \$ 501,404 | 30.4% |

Working Capital

Management uses working capital as a measurement of the short-term liquidity of the Company. Net working capital at September 30, 2011 and December 31, 2010 is summarized as follows:

| (Dollars in thousands) | September 30, 2011 | December 31, 2010 | Increase/(Decrease) |
|------------------------|-----------------------|----------------------|---------------------|
| Current assets: | | | |
| Cash and equivalents | \$ 1,318,885 | \$ 1,186,367 | \$ 132,518 |
| Trade receivables | 2,985,354 | 2,581,592 | 403,762 |
| Inventories | 1,794,327 | 1,634,856 | 159,471 |
| Assets held for sale | 411,515 | — | 411,515 |
| Other | 824,338 | 567,673 | 256,665 |
| | 7,334,419 | 5,970,488 | 1,363,931 |
| Current liabilities: | | | |
| Short-term debt | 1,040,806 | 326,236 | 714,570 |

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| | | | |
|---------------------------------------|-------------|-------------|------------|
| Accounts payable and accrued expenses | 2,253,629 | 2,140,885 | 112,744 |
| Liabilities held for sale | 97,091 | — | 97,091 |
| Other | 244,372 | 555,731 | (311,359) |
| | 3,635,898 | 3,022,852 | 613,046 |
| Net working capital | \$3,698,521 | \$2,947,636 | \$ 750,885 |
| Current ratio | 2.02 | 1.98 | |

Trade receivables and inventories increased primarily due to the increase in base revenues and acquisitions. Other current assets increased primarily due to higher tax receivables. Short-term debt increased primarily due to issuances of commercial paper to fund acquisitions, share repurchases and dividend payments. Accounts payable and accrued expenses increased due to higher purchase activity, and other current liabilities decreased primarily due to the decrease in income taxes payable. The Company's cash and equivalents balance at September 30, 2011 was approximately \$1.3 billion, most of which was held internationally.

Debt

The Company's targeted debt-to-capital ratio is 20% to 30%, excluding the impact of any larger acquisitions. Total debt at September 30, 2011 and December 31, 2010 was as follows:

| (Dollars in thousands) | September 30, 2011 | December 31, 2010 |
|------------------------------|--------------------|-------------------|
| Short-term debt | \$ 1,040,806 | \$ 326,236 |
| Long-term debt | 3,522,123 | 2,542,087 |
| Total debt | \$ 4,562,929 | \$ 2,868,323 |
| Total debt to capitalization | 31.7% | 23.1% |

The Company had outstanding commercial paper of approximately \$712.0 million at September 30, 2011, which is included in short-term debt, and no outstanding commercial paper at December 31, 2010.

In June 2010, the Company entered into a \$1.0 billion Line of Credit Agreement with a termination date of June 10, 2011. This line of credit was replaced on June 10, 2011 by a \$1.0 billion Line of Credit Agreement with a termination date of June 10, 2016. No amounts were outstanding under this facility at September 30, 2011.

In August 2011, the Company issued \$350.0 million of 3.375% notes due September 15, 2021 at 99.552% of face value and \$650.0 million of 4.875% notes due September 15, 2041 at 98.539% of face value. The net proceeds from the issuance were used to pay down the Company's commercial paper balance.

The Company believes that based on its current free operating cash flow, debt-to-capitalization ratios and credit ratings, it could readily obtain additional financing if necessary.

Stockholders' Equity

The changes to stockholders' equity during 2011 were as follows:

| (In thousands) | |
|---|--------------|
| Total stockholders' equity, December 31, 2010 | \$ 9,571,999 |
| Net income | 1,629,187 |
| Stock option and restricted stock activity | 194,644 |

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| | |
|--|--------------|
| Pension and other postretirement benefit adjustments, net of tax | 25,113 |
| Repurchases of common stock | (950,000) |
| Noncontrolling interest | 3,174 |
| Cash dividends declared | (511,047) |
| Foreign currency translation adjustments | (111,061) |
| Total stockholders' equity, September 30, 2011 | \$ 9,852,009 |

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that may be identified by the use of words such as “believe,” “expect,” “plans,” “intends,” “strategy,” “prospects,” “estimate,” “project,” “target,” “anticipate,” “guidance,” and other similar words, including, without limitation, statements regarding the adequacy of internally generated funds and credit facilities, the meeting of dividend payout objectives, the ability to fund debt service obligations, expected contributions to the Company’s pension and postretirement plans, the availability of additional financing, and the estimated timing and amount related to the resolution of tax matters. These statements are subject to certain risks, uncertainties, and other factors, which could cause actual results to differ materially from those anticipated. Important risks that may influence future results include (1) an interruption or slow-down of economic recovery in the markets served by the Company, (2) changes or deterioration in international and domestic business and economic conditions, particularly in North America, Europe, and Asia Pacific, (3) the potential negative impact of acquisitions on the Company’s profitability and return on invested capital, (4) financial market risks to the Company’s obligations under its defined benefit pension plans, (5) the unfavorable impact of foreign currency fluctuations and costs of raw materials, (6) decreases in credit availability, (7) an interruption in, or reduction in, introducing new products into the Company’s product lines, (8) an unfavorable environment for making acquisitions, domestic and international, including adverse accounting or regulatory requirements and market values of candidates, (9) unfavorable tax law changes and tax authority rulings, and (10) the risk of intentional acts of our employees, agents or business partners that violate anti-corruption and other laws. The risks covered here are not all inclusive and given these and other possible risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. A more detailed description of these risks is set forth in the Company’s Form 10-K for 2010.

The Company practices fair disclosure for all interested parties. Investors should be aware that while the Company regularly communicates with securities analysts and other investment professionals, it is against the Company’s policy to disclose to them any material non-public information or other confidential commercial information. Shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report.

Item 4 – Controls and Procedures

The Company’s management, with the participation of the Company’s Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Exchange Act Rule 13a–15(e)) as of September 30, 2011. Based on such evaluation, the Company’s Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer have concluded that, as of September 30, 2011, the Company’s disclosure controls and procedures were effective.

In connection with the evaluation by management, including the Company’s Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer, no changes in the Company’s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended September 30, 2011 were identified that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

Part II – Other Information

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

On August 20, 2007, the Company’s Board of Directors authorized a 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 (the “2007 Program”). As of September 30, 2011, there were no authorized purchases remaining under the 2007 Program. On May 6, 2011, the Company’s Board of Directors authorized a new stock repurchase program which provides for the buyback of up to an additional \$4.0 billion of the Company’s common stock over an open-ended period of time (the “2011 Program”). As of September 30, 2011, there was approximately \$3.9 billion of authorized repurchases remaining under the 2011 Program.

Share repurchase activity under these programs for the third quarter was as follows:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as part of Publicly Announced Program | Maximum Value of Shares that may yet be Purchased Under Programs |
|-------------|----------------------------------|------------------------------|--|--|
| July 2011 | 1,354,000 | \$50.38 | 1,354,000 | \$4,252,781,824 |
| August 2011 | 7,105,265 | 46.70 | 7,105,265 | 3,920,999,794 |
| Total | 8,459,265 | 47.29 | 8,459,265 | |

Item 6 – Exhibits

Exhibit Index

Exhibit Number Exhibit Description

- 4.1 Officers’ Certificate dated August 31, 2011, establishing the terms, and setting forth the forms, of the 3.375% Notes due 2021 and the 4.875% Notes due 2041, filed as Exhibit 4.3 to the Company’s Form 8-K filed on September 1, 2011 (Commission File No. 001-04797) and incorporated herein by reference.
- 4.2 Registration Rights Agreement dated August 31, 2011, by and among the Company and J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, filed as Exhibit 4.4 to the Company’s Form 8-K filed on September 1, 2011 (Commission File No. 001-04797) and incorporated herein by reference.
- 31 Rule 13a-14(a) Certification.
- 32 Section 1350 Certification.
- 101* The following financial and related information from the Illinois Tool Works Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 is formatted in Extensible Business Reporting Language (XBRL) and submitted electronically herewith:

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(i) Statement of Income, (ii) Statement of Financial Position, (iii) Statement of Cash Flows and (iv) related Notes to Financial Statements.

* As provided in Rule 406T of Regulation S-T, this information is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, and is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and is otherwise not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ILLINOIS TOOL WORKS INC.

Dated: October 28, 2011

By: /s/ Randall J. Scheuneman
Randall J. Scheuneman
Vice President & Chief Accounting Officer
(Principal Accounting Officer and Duly Authorized
Officer)